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2014 OCT -3 P 4: 29

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN
GARY PIERCE
BOB BURNS
SUSAN BITTER SMITH
BRENDA BURNS

ORIGINAL

Arizona Corporation Commission
DOCKETED

OCT 03 2014

DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF UTILITY SOURCE, LLC, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
ITS WATER AND WASTEWATER RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: WS-04235A-13-0331

**NOTICE OF FILING REBUTTAL
TESTIMONY**

Utility Source, L.L.C. ("Company"), hereby files rebuttal testimonies described
below:

- Rebuttal Testimony of Tom Bourassa regarding Rate Base, Incomes Statement and Rate Design (Attachment 1);
- Rebuttal Testimony of Tom Bourassa regarding Cost of Capital (Attachment 2); and
- Rebuttal Testimony of Lonnie McCleve (Attachment 3).

Steve Wene

1 Original and thirteen (13) copies
2 of the foregoing filed this
3 3rd day of October, 2014 with:

4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copies of the foregoing mailed
8 this 3rd day of October, 2014 to:

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ATTACHMENT 1

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION
OF UTILITY SOURCE, LLC, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
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DOCKET NO: WS-04235A-13-0331

**REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**

October 3, 2014

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying in this proceeding on behalf of the applicant, Utility Source, LLC
7 ("USLLC" or the "Company"). USLLC is seeking changes in its rates and charges
8 for water utility service in its certificated service area, which area is located in
9 Yavapai County.

10 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
11 **INSTANT CASE?**

12 A. Yes, my direct testimony was submitted in support of the initial application in this
13 docket. There were two volumes, one addressing rate base, income statement and
14 rate design, and the other addressing cost of capital.

15 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

16 A. To respond to the direct filings by Staff and RUCO relating to rate base, income
17 statement and rate design for USLLC. In a second, separate volume of my rebuttal
18 testimony, I present an update to the Company's requested cost of capital as well as
19 provide responses to Staff and RUCO on the cost of capital, the rate of return
20 applied to the fair value rate base, and the determination of operating income.

21 **II. SUMMARY OF USLLC'S REBUTTAL POSITION.**

22
23 **Q. WHAT ARE THE REVENUE INCREASES FOR THE WATER AND**
24 **WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN**
25 **THIS REBUTTAL TESTIMONY?**

26 A. For the water division the Company proposes a total revenue requirement of

1 \$432,967, which constitutes an increase in revenues of \$226,783, or 109.99 percent
2 over adjusted test year revenues. For the wastewater division, the Company
3 proposes a total revenue requirement of \$328,900 which constitutes an increase in
4 revenues of \$209,436, or 175.31 percent over adjusted test year revenues.

5 **Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT**
6 **FILING?**

7 A. In the direct filing, the Company requested a total revenue requirement of \$436,451
8 for the water division, which required an increase in revenues of \$228,447, or
9 109.83 percent. Also in the direct filing, the Company requested a total revenue
10 requirement of \$318,044 for the wastewater division, which required an increase in
11 revenues of \$196,760, or 162.23 percent.

12 **Q. WHAT'S DIFFERENT?**

13 A. In its rebuttal filing, USLLC has adopted a number of rate base and
14 revenue/expense adjustments recommended by Staff, as well as proposed a number
15 of adjustments of its own based on known and measurable changes to the test year.

16 For the water division, the net result of these adjustments is the Company's
17 proposed operating expenses have decreased by \$4,200, from \$216,269 in the
18 direct filing to \$212,069; and a net increase of \$8,652 in rate base from the direct
19 filing of \$1,566,542 to \$1,575,194.

20 For the wastewater division, the net result of these adjustments is the
21 Company's proposed operating expenses have increased by \$9,264, from \$193,541
22 in the direct filing to \$202,805; and a net decrease of \$5,089 in rate base from the
23 direct filing of \$830,945 to \$825,856.

24 The Company continues to recommend an 11.0 percent return on equity.
25 Based on a capital structure consisting of 100 percent equity and 0 percent debt, the
26 Company recommends a weighted cost of capital and return on its fair value rate

1 base ("FVRB") of 11.0 percent. I discuss the Company proposed return on equity,
2 cost of debt, and capital structure in my separate rebuttal cost of capital testimony.

3 **Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**
4 **INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE**
5 **OF THE PROCEEDING?**

6 A. For the water division, the proposed revenue requirements and proposed rate
7 increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
8 Company-Direct	\$436,451	\$228,447	109.83%
9 Staff	\$406,372	\$200,188	97.09%
10 RUCO	\$363,609	\$155,605	74.81%
11 Company Rebuttal	\$432,967	\$226,783	109.99%

12 For the wastewater division, the proposed revenue requirements and
13 proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
14 Company-Direct	\$318,044	\$196,760	162.23%
15 Staff	\$315,314	\$195,850	163.94%
16 RUCO	\$285,358	\$164,074	135.28%
17 Company Rebuttal	\$328,900	\$209,436	175.31%

1 **III. RATE BASE**

2 **A. Water Division Rate Base**

3 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
4 **BASE RECOMMENDATIONS FOR THE WATER DIVISION?**

5 A. Yes, for the water division the rate bases proposed by the parties proposing a rate
6 base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
7 Company-Direct	\$1,566,542	\$1,566,542
8 Staff	\$1,594,961	\$1,594,961
9 RUCO	\$1,566,542	\$1,566,542
10 Company Rebuttal	\$1,575,194	\$1,575,194

11 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
12 **ORIGINAL COST RATE BASE FOR THE WATER DIVISION?**

13 A. Yes. The Company's rebuttal rate base adjustments to the water division's OCRB
14 are detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2,
15 page 1 and 2, summarize the Company's proposed adjustments and the rebuttal
16 OCRB.

17 **1. Plant-in-service (PIS)**

18 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
19 **REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WATER**
20 **DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**
21 **ACCEPTED FROM STAFF AND/OR RUCO?**

22 A. The Company is not proposing any additional adjustments to the water division PIS
23 balance. The Company recommends a PIS balance of \$2,496,640. Staff and
24 RUCO recommend the same PIS balance as the Company.¹

25
26 ¹ See Staff Water Division Schedule JLK-W3 and RUCO Water Division Schedule JMM-2.

1
2 **2. Accumulated Depreciation (A/D)**

3 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
4 **ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE**
5 **WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**
6 **ACCEPTED FROM STAFF AND/OR RUCO?**

7 A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2,
8 consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 4.

9 Adjustment A reflects a correction to the A/D balance for account 311 –
10 Electric Pumping Equipment. The A/D balance was greater than the original cost
11 by \$9,919 and this adjustment corrects the A/D balance to equal the original cost
12 balance. RUCO and Staff do not propose a similar adjustment to correct the A/D
13 balance.

14 **Q. DOES STAFF AND/OR PROPOSE AN ADJUSTMENT TO THE A/D**
15 **BALANCE?**

16 A. Yes. Staff proposed to reduce the A/D balance by \$49,456 reflecting additional
17 depreciation on Deep Well No. 4.² RUCO does not propose any adjustments to
18 A/D.³

19 **Q. PLEASE RESPOND TO STAFF'S ASSERTION (AT PAGE 8 OF MR.**
20 **KELLER'S TESTIMONY) THAT THE COMPANY DID NOT SUPPORT**
21 **THE BASIS OR THE METHOD FOR THE A/D RELATED TO DEEP**
22 **WELL NUMBER 4.**

23 A. The Company did provide a detailed computation of the A/D related to Deep Well
24

25

² See Direct Testimony of Jorn L. Keller ("Keller Dt.") at 8.

26 ³ See Direct Testimony of Jeffery M. Michlk ("Michlik Dt.") at 8.

1 No. 4.⁴ The Company does not believe an additional adjustment to A/D is
2 required and disagrees with the Staff recommendation.

3 **3. Contributions-in-aid of Construction (CIAC)**

4 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE WATER**
5 **DIVISION'S CONTRIBUTIONS-IN-AID OF CONSTRUCTION AND**
6 **ACCUMULATED AMORTIZATION BALANCES.**

7 A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company
8 reduces accumulated amortization by \$1,267. This adjustment reflects a change to
9 the composite depreciation rate for the test year and is related to the correction of
10 the A/D balance discussed at page 5.

11 **Q. DOES STAFF AND/OR RUCO PROPOSE AN ADJUSTMENT TO CIAC**
12 **OR ACCUMULATED AMORTIZATION?**

13 A. Yes. Staff proposed to reduce the accumulated amortization balance by \$20,937
14 balance which reflects a 2.898 percent amortization rate for the years since the last
15 rate case and through the end of the test year.⁵ RUCO does not propose any
16 adjustments to CIAC or accumulated amortization.⁶

17 **Q. HOW DID STAFF DETERMINE THE 2.898 PERCENT AMORTIZATION**
18 **RATE FOR USE IN RECONSTRUCTING THE ACCUMULATED**
19 **AMORTIZATION BALANCE?**

20 A. I am not sure. Staff does not explain its amortization rate.⁷ However, it appears to
21 be the CIACC amortization rate used by the Company is its annualization of test
22 year depreciation expense.⁸

23 ⁴ See USLLC Direct Schedule B-2, page 4.1.

24 ⁵ Keller Dt. at 9.

25 ⁶ Michlik Dt. at 9.

26 ⁷ Keller Dt. at 9.

⁸ See USLLC Water Division Direct Schedule C-2, page 2.

1 **Q. IS IT CUSTOMARY TO USE THE COMPOSITE DEPRECIATION RATE**
2 **USED TO ANNUALIZE THE TEST YEAR DEPRECIATION EXPENSE**
3 **WHEN RECONSTRUCTING ACCUMULATED AMORTIZATION?**

4 A. No. I have always reconstructed the amortization balance using the composite
5 depreciation rate for each year.⁹ In my experience, Staff also uses the composite
6 depreciation rate for each year to compute the amortization for that year. I am
7 somewhat confused by the Staff testimony regarding the Staff testimony given that
8 Staff appears to be deviating from its typical practice regarding CIAC amortization.
9 I am also confused because Staff did not use the amortization rate used in
10 annualizing the wastewater division's depreciation expense to reconstruct the
11 wastewater's accumulated amortization balance.

12
13 **B. Wastewater Division Rate Base**

14 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
15 **BASE RECOMMENDATIONS FOR THE WATER DIVISION?**

16 A. Yes, for the water division the rate bases proposed by the parties proposing a rate
17 base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
18 Company-Direct	\$830,945	\$830,945
19 Staff	\$825,880	\$825,880
20 RUCO	\$830,945	\$830,945
21 Company Rebuttal	\$825,856	\$825,856

22
23 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
24

25 ⁹ See USLLC Water Division Rebuttal Schedule B-2, page 5.1. The exception is when the CIAC is tracked
26 to a specific plant account(s). Under that circumstance the authorized depreciation rate(s) for the plant
account(s) are used.

1 **ORIGINAL COST RATE BASE FOR THE WATER DIVISION?**

2 A. Yes. The Company's rebuttal rate base adjustments to the wastewater division's
3 OCRB are detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal
4 Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and
5 the rebuttal OCRB.

6 **1. Plant-in-service (PIS)**

7 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
8 **ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WASTEWATER**
9 **DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**
10 **ACCEPTED FROM STAFF AND/OR RUCO?**

11 A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2,
12 consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 3.

13 Adjustment A reflects a reclassification of \$421 of plant from account 340 –
14 Furniture and Equipment to 340.1 – Computers and Software. The net impact on
15 total PIS is zero. Staff proposed a similar adjustment. RUCO does not propose a
16 similar adjustment.

17 **2. Accumulated Depreciation (A/D)**

18 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
19 **ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE**
20 **WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU**
21 **HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

22 A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2,
23 consists of one adjustment labeled as "A" on Rebuttal Schedule B-2, page 4.

24 Adjustment A reflects the adjustment to A/D for additional depreciation of
25 \$28 and it is related to the reclassification of plant as discussed in in B-2
26

1 adjustment 1A, above. The Company recommends an A/D balance of \$455,092.
2 Staff and RUCO do not propose a similar adjustment recommend same A/D
3 balance of \$455,064.¹⁰
4

5 **3. Contributions-in-aid of Construction (CIAC)**

6 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE**
7 **WASTEWATER DIVISION'S CONTRIBUTIONS-IN-AID OF**
8 **CONSTRUCTION AND ACCUMULATED AMORTIZATION**
9 **BALANCES.**

10 A. The Company is not proposing any additional adjustments to the wastewater
11 division CIAC balance or the accumulated amortization balance. The Company
12 recommends a CIAC balance of \$197,193 and an accumulated amortization
13 balance of \$86,711 (net CIAC of \$111,262). Staff and RUCO recommend the
14 same balances as the Company.¹¹

15 **4. Customer Security Deposits**

16 **Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO**
17 **CUSTOMER METER DEPOSITS?**

18 A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2,
19 the Company proposes to increase Customer Security Deposits by \$5,065.
20 This adjustment reflects the adoption of the Staff recommended adjustment.¹²
21 RUCO does not propose a similar adjustment.
22
23
24

25 ¹⁰ *Id.*

26 ¹¹ Keller Dt. at 10.

¹² Carlson Dt. at 19.

1 **IV. INCOME STATEMENT**

2 **A. Water Division Revenue and Expenses**

3 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
4 **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER**
5 **DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**
6 **ACCEPTED FROM STAFF AND/OR RUCO?**

7 A. The Company rebuttal adjustments for the water division are detailed on Rebuttal
8 Schedule C-2, pages 1-12. The rebuttal income statement with adjustments is
9 summarized on Rebuttal Schedule C-1, page 1-2.

10 Rebuttal adjustment number 1 reduces depreciation expense. The rebuttal
11 proposed depreciation expense is lower than the direct filing by \$624.
12 The reduction is due to a correction of the CIAC amortization rate from 2.898
13 percent to 3.114 percent. In its direct filing, the Company failed to remove the
14 fully depreciated plant associated with account 311 – Electric Pumping Equipment
15 totaling \$158,711 from the computation of the depreciable plant balance used in
16 computing the amortization rate.¹³

17 **Q. DOES STAFF AND/OR RUCO PROPOSE ADJUSTMENT TO**
18 **DEPRECIATION EXPENSE?**

19 A. Yes. RUCO proposed the same adjustment to depreciation expense as does the
20 Company.¹⁴ Both the Company and RUCO compute the essentially the same
21 amortization rate (3.114 percent for the Company and 3.11 percent for RUCO).¹⁵

22 Staff proposed to reduce depreciation expense by \$1,097.¹⁶ However, Staff uses an

23 ¹³ Compare USLLC Water Division Direct Schedule C-2, page2 and USLLC Water Division Rebuttal
24 Schedule C-2, page 2.

¹⁴ Michlik Dt. at 9 and RUCO Water Division Schedule JMM-7.

25 ¹⁵ Compare USLLC Water Division Rebuttal Schedule C-2, page2 and RUCO Water Division Schedule
JMM-7.

26 ¹⁶ Keller Dt. at 11.

1 incorrectly computed amortization rate in in computation of annualized
2 depreciation expense. Staff computes an amortization rate of 3.27 percent¹⁷ which
3 is incorrect because Staff does not recognize only depreciable plant in its
4 computation.

5 Rebuttal adjustment number 2 reduces property tax expense and reflects the
6 rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on
7 the method of computing property taxes. This method utilizes the ADOR formula
8 and inputs two years of adjusted revenues plus one year of proposed revenues. I
9 computed the property taxes based on the Company's proposed revenues, and then
10 used the property tax rate and assessment ratio that was used in the direct filing.

11 **Q. ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT**
12 **RATIOS?**

13 A. Yes.¹⁸

14 **Q. THANK YOU. PLEASE CONTINUE.**

15 A. Rebuttal adjustment number 3 increases rate case expense by \$6,667 and reflect a
16 reduction in the number of years to amortize rate case expense. This adjustment
17 adopts the recommendation of Staff.¹⁹ RUCO does not propose a similar
18 adjustment.

19 Rebuttal adjustment number 4 reduces other water revenues by \$1,850 and
20 reflects the adoption of the Staff recommended adjustment.²⁰ RUCO does not
21 propose a similar adjustment.

22
23
24 ¹⁷ See Staff Water Division Schedule JLK-W10.

25 ¹⁸ See USLLC Water Division Rebuttal Schedule C-2, page 3; Staff Water Division Schedule JLK-W15;
RUCO Water Division Schedule JMM-8.

26 ¹⁹ Keller Dt. at 14.

²⁰ *Id.* at 11.

1 Rebuttal adjustment number 5 reduces water testing expense by \$6,637 and
2 reflects the adoption of the Staff recommendation.²¹ RUCO does not propose a
3 similar adjustment.

4 Rebuttal adjustment number 6 reduces transportation expense by \$1,750 for
5 and reflects the adoption of the Staff recommendation.²² RUCO does not propose a
6 similar adjustment.

7 Rebuttal adjustment number 7 reduces miscellaneous expense by \$2,366 for
8 telephone related expenses and reflects the adoption of the Staff recommendation.²³
9 RUCO does not propose a similar adjustment.

10 Rebuttal adjustments number 8 through 10 are intentionally left blank.

11 Rebuttal adjustment 11 reflects the changes to income taxes at the
12 Company's rebuttal proposed revenues and expenses.

13 **Q. DO ALL THE PARTIES RECOGNIZE INCOME TAXES?**

14 A. No. RUCO does not recognize any income taxes.²⁴

15 **Q. DOES THE COMMISSION ALLOW RECOVERY OF INCOME TAXES**
16 **FOR TAX PASS-THROUGH ENTITIES?**

17 A. Yes.²⁵

23 ²¹ *Id.*

24 ²² *Id.* at 13.

25 ²³ *Id.* at 14.

26 ²⁴ Michlik Dt. at 11.

²⁵ See Decision 73739, dated February 22, 2013.

1 **B. Wastewater Division Revenue and Expenses**

2 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
3 **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE**
4 **WASTEWATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU**
5 **HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

6 A. The Company rebuttal adjustments for the wastewater division are detailed on
7 Rebuttal Schedule C-2, pages 1-12. The rebuttal income statement with
8 adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

9 Rebuttal adjustment number 1 increases depreciation expense by \$48 and
10 reflect the additional depreciation on plant due to the reclassification of plant
11 discussed previously on page 8.

12 **Q. DOES STAFF AND/OR RUCO PROPOSE ADJUSTMENT TO**
13 **DEPRECIATION EXPENSE?**

14 A. Yes. Staff proposes an increase to depreciation expense of \$67.²⁶ The difference
15 between the Company and Staff on depreciation expense is due to a difference in
16 the computation of the amortization rate. However, Staff uses an incorrectly
17 computed amortization rate in in computation of annualized depreciation expense.
18 Staff computes an amortization rate of 3.87 percent²⁷ which is incorrect because
19 Staff does not recognize only depreciable plant in its computation.

20 Rebuttal adjustment number 2 increases property tax expense and reflects
21 the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement
22 on the method of computing property taxes. This method utilizes the ADOR
23 formula and inputs two years of adjusted revenues plus one year of proposed
24 revenues. I computed the property taxes based on the Company's proposed

25 ²⁶ Keller Dt. at 18.

26 ²⁷ See Staff Wastewater Division Schedule JLK-WW12.

1 revenues, and then used the property tax rate and assessment ratio that was used in
2 the direct filing.

3 **Q. ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT**
4 **RATIOS?**

5 A. Yes.²⁸

6 **Q. THANK YOU. PLEASE CONTINUE.**

7 A. Rebuttal adjustment number 3 increases rate case expense by \$6,667 and reflect a
8 reduction in the number of years to amortize rate case expense. This adjustment
9 adopts the recommendation of Staff.²⁹ RUCO does not propose a similar
10 adjustment.

11 Rebuttal adjustment number 4 reduces other water revenues by \$1,850 and
12 reflects the adoption of the Staff recommended adjustment.³⁰ RUCO does not
13 propose a similar adjustment.

14
15 Rebuttal adjustment number 5 reduces water testing expense by \$6,637 and
16 reflects the adoption of the Staff recommendation.³¹ RUCO does not propose a
17 similar adjustment.

18 Rebuttal adjustment number 6 reduces transportation expense by \$1,750 for
19 and reflects the adoption of the Staff recommendation.³² RUCO does not propose a
20 similar adjustment.

21
22
23 ²⁸ See USLLC Wastewater Division Rebuttal Schedule C-2, page 3; Staff Water Division Schedule JLK-
24 WW14; RUCO Wastewater Division Schedule JMM-8.

25 ²⁹ Keller Dt. at 14.

26 ³⁰ *Id.* at 11.

³¹ *Id.*

³² *Id.* at 13.

1 Rebuttal adjustment number 7 reduces miscellaneous expense by \$2,366 for
2 telephone related expenses and reflects the adoption of the Staff recommendation.³³
3 RUCO does not propose a similar adjustment.

4 Rebuttal adjustments number 8 through 10 are intentionally left blank.

5 Rebuttal adjustment 11 reflects the changes to income taxes at the
6 Company's rebuttal proposed revenues and expenses.

7 **Q. DO ALL THE PARTIES RECOGNIZE INCOME TAXES?**

8 A. No. RUCO does not recognize any income taxes.³⁴

9 **Q. DOES THE COMMISSION ALLOW RECOVERY OF INCOME TAXES**
10 **FOR TAX PASS-THROUGH ENTITIES?**

11 A. Yes.³⁵

12 **V. RATE DESIGN (H SCHEDULES).**

13 **A. Water Division**

14 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER**
15 **SERVICE?**

16 A. The Company's proposed rates are:
17 MONTHLY SERVICE CHARGES

18	5/8" x 3/4" Meter	\$ 40.61
19	3/4" Meter	\$ 40.61
20	1" Meter	\$ 100.52
21	1 1/2" Meter	\$ 203.04
22	2" Meter	\$324.86
23	3" Meter	\$649.72

24
25 ³³ *Id.* at 14.

26 ³⁴ Michlik Dt. at 11.

³⁵ See Decision 73739, dated February 22, 2013.

1	4" Meter		\$1,015.19
2	6" Meter		\$2,030.38
3	Gallons in minimum		0
4	COMMODITY RATES		
5	5/8"X3/4" –Res. & Com	1 to 4,000	\$ 8.25
6		4,001 to 9,000	\$15.75
7		Over 9,000	\$21.75
8	3/4" – Res. & Com.	1 to 4,000	\$ 8.25
9		4,001 to 9,000	\$15.75
10		Over 9,000	\$21.75
11	1" Meter – Res. & Com.	1 to 27,000	\$15.75
12		Over 27,000	\$21.75
13	1 1/2" Meter – Res. & Com.	1 to 57,000	\$15.75
14		Over 57,000	\$21.75
15	2" Meter– Res. & Com.	1 to 94,000	\$15.25
16		Over 94,000	\$21.75
17	3" Meter– Res. & Com.	1 to 195,000	\$15.25
18		Over 195,000	\$21.75
19	4" Meter– Res. & Com.	1 to 309,000	\$15.25
20		Over 309,000	\$21.75
21	6" Meter– Res. & Com.	1 to 615,000	\$15.25
22		Over 615,000	\$21.75
23	Irrigation Meters	All gallons	\$15.75
24			
25	Standpipe/Bulk Water	All gallons	\$21.75
26			

1 Construction Meters All gallons \$21.75

2

3 **Q. WHAT WILL BE THE 5/8X3/4 INCH RESIDENTIAL CUSTOMER**
4 **AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

5 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
6 for a 3/4 inch residential customer using an average 4,123 gallons is \$75.54 – a
7 \$36.96 increase over the present monthly bill or a 95.81 percent increase.

8 **Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE**
9 **DIRECT FILING?**

10 A. No.

11 **Q. PLEASE COMMENT ON THE PROPOSED WATER RATE DESIGN OF**
12 **STAFF AND RUCO.**

13 A. Before I begin, the Staff proposed water rates do not produce the Staff
14 recommended revenue requirement. The revenues produced are about 14,000 short.
15 That said, the Staff rate design will lead to greater amounts of revenue erosion
16 when conservation occurs than the Company's rate design. One reason for this
17 higher revenue instability is that a greater portion the revenue requirement is
18 recovered via the commodity rates under the Staff rate design than the Company
19 rate design. Under the Staff design less than 33 percent of the revenue requirement
20 is recovered from the monthly minimums whereas under the Company's rate
21 design about 40 percent of the revenues are recovered from the monthly
22 minimums. Another reason for the greater revenue stability is that under the Staff
23 rate design more revenues are recovered from the higher commodity rates. About
24 48 percent of the revenue requirement is recovered from the two highest
25 commodity rates under the Staff rate design while about 38 percent of the revenue
26 requirement is recovered from the two highest commodity rates. When

1 conservation occurs, the commodity revenues will decrease to a greater extent
2 under the Staff rate design compared to the Company rate design.

3 **Q. WHY IS THAT THE CASE?**

4 A. When more revenues are expected to be recovered from the commodity rates, a
5 greater amount of revenues are lost. This is because the commodity rates must
6 necessarily be higher when a greater proportion of revenues are recovered from the
7 commodity rates as opposed to the monthly minimums. With each gallon of water
8 being priced at a higher cost, the dollar loss from each gallon lost means more
9 revenues are lost. Additionally, since a much greater portion of the commodity
10 revenues are recovered from the highest priced commodity rates under the Staff
11 rate design than under the Company rate design it translates to more revenue
12 instability.

13 **Q. WHY DO THESE SCENARIOS INCREASE REVENUE INSTABILITY**
14 **AND THE RISK OF REVENUE EROSION?**

15 A. A loss of a gallon of water at the higher commodity rates means more revenue loss
16 than the loss of a gallon of water at the lower commodity rate. The larger water
17 users typically have the greatest amount of discretionary water and the greatest
18 amount of conservation can be expected to occur from these customers as they will
19 see the highest cost commodity rates.

20 **Q. IF THE GOAL IS TO ACHIEVE CONSERVATION THEN WHY NOT**
21 **CHARGE THESE CUSTOMERS AS MUCH AS POSSIBLE FOR THEIR**
22 **WATER USE?**

23 A. Conservation is not the only goal of a sound rate design. Equally important is
24 ensuring the utility recovers its cost of service (revenue requirement), revenue
25 stability. These two goals must be balanced (along with the goal of avoiding cost
26

1 of service inequities).³⁶ The Company's proposed rate design promotes
2 conservation by charging the higher water users more per unit of water than the
3 low water users. The higher cost of water sends a conservation pricing signal to
4 the higher water users. This is consistent with the approach the Commission has
5 taken on rate design for more than a decade now, at least in my experience.

6 On the other hand, the Company's rate design provides for more revenue
7 stability by providing a better balance of revenue recovery between the monthly
8 minimums and the commodity rates. Further, with respect to the commodity
9 revenues the Company's rate design provides a better balance of revenue recovery
10 across all the commodity rates.

11 **Q. WHAT DO YOU MEAN BY A BETTER BALANCE ACROSS THE**
12 **COMMODITY RATES?**

13 A. Balance refers to how evenly the commodity revenue is recovered between the
14 lowest priced commodity rate and the highest priced commodity rates. Setting the
15 higher commodity rates too high and recovering a greater amount of revenue from
16 the higher commodity rates leads to the loss of a greater amount of revenue when
17 conservation occurs.

18 **Q. DO YOU HAVE SIMILAR REVENUE STABILITY CONCERNS WITH**
19 **RUCO'S PROPOSED RATE DESIGN?**

20 A. Yes. RUCO's rate design recovers about 35 percent of revenues from the monthly
21 minimums which is significantly lower than the Company's recovery at about 40
22 percent. Further, like the Staff rate design, a greater portion of the revenue
23 requirement is recovered from the highest cost commodity rates. RUCO's rate
24 design recovers about 40 percent of revenues from the two highest commodity

25 ³⁶ Principles of Water Rates, Fees, and Charges. AWWA Manual M-1 Sixth Edition, American Water
26 Works Association, p.4.

1 rates.

2 **Q. HOW DID THE COMPANY DETERMINE THE COMMODITY RATE**
3 **FOR STANDPIPE WATER AND CONSTRUCTION WATER?**

4 A. The Company followed the typical and customary practice of setting the
5 commodity rate to the highest cost commodity rate. Standpipe and construction
6 water customers do not pay a monthly minimum and purchased small quantities if
7 water which is inefficient and more costly. These customers should pay more for
8 water than a regular customer.

9 **1. Other Tariff Changes.**

10 **Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND**
11 **STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE**
12 **INSTALLATION CHARGES?**

13 A. No. The Company and Staff are in agreement.

14 **Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND**
15 **STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS**
16 **CHARGES?**

17 A. No.

18 **B. Wastewater Division**

19
20 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR**
21 **WASTEWATER SERVICE?**

22 A. The Company's proposed rates are:
23 MONTHLY CHARGE

24	5/8" x 3/4" Meter	\$ 53.00
25	3/4" Meter	\$ 53.00
26	1" Meter	\$132.50

1	1 1/2" Meter	\$265.00
2	2" Meter	\$424.00
3	3" Meter	\$848.00
4	4" Meter	\$1,325.00
5	6" Meter	\$2,650.00

6

7 Rate per 1,000 gallons of water use:

8	Residential	\$ 5.31
9	Car washes, laundromats, commercial, manufacturing	\$ 5.20
10	Hotels and motels	\$ 6.97
11	Restaurants	\$ 8.61
12	Industrial Laundries	\$ 7.63
13	Waste Haulers	\$155.79
14	Restaurant Grease	\$136.32
15	Treatment Plant Sludge	\$155.79
16	Treatment Plant Sludge	\$486.85

17

18 **Q. WHAT WILL BE THE 3/4 INCH RESIDENTIAL CUSTOMER AVERAGE**
19 **MONTHLY BILL UNDER THE NEW RATES?**

20 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
21 for a 3/4 inch residential customer using an average 4,123 gallons is \$74.91 – a
22 \$50.83 increase over the present monthly bill or a 211.13% increase.

23 **Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN?**

24 A. No.

25

26 **Q. PLEASE COMMENT ON THE PROPOSED WASTEWATER RATE**

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DESIGN OF STAFF AND RUCO.

A. The Staff proposed wastewater rate design does not include a usage charge for residential customers. Further, the usage charge for other classes of customers is \$11.28. The Company disagrees with the Staff rate design because it does not distinguish between those customers who place more demands on the wastewater system because they use more water and/or because their wastewater is more costly to treat.

The RUCO proposed wastewater rate design does not include any monthly minimums. All of the wastewater revenues are recovered via usage charges. The Company disagrees with the RUCO rate design because it leads to higher revenue instability and can lead to wide fluctuations in monthly revenues (seasonality).

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

REBUTTAL SCHEDULES
WATER DIVISION

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line

No.

1	Fair Value Rate Base	\$	1,575,194
2			
3	Adjusted Operating Income		(5,885)
4			
5	Current Rate of Return		-0.37%
6			
7	Required Operating Income	\$	173,271
8			
9	Required Rate of Return		11.00%
10			
11	Operating Income Deficiency	\$	179,157
12			
13	Gross Revenue Conversion Factor		1.2658
14			
15	Increase in Gross Revenue		
16	Requirement	\$	226,783
17			
18	Adjusted Test Year Revenues	\$	206,184
19	Increase in Gross Revenue Revenue Requirement	\$	226,783
20	Proposed Revenue Requirement	\$	432,967
21	% Increase		109.99%
22			

Customer		Present	Proposed	Dollar	Percent
<u>Classification</u>		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
25	3/4 Inch Residential	\$ 159,301	\$ 327,130	\$ 167,829	105.35%
26	3/4 Inch Commercial	322	811	490	152.32%
27	2 Inch Commercial	38,120	89,877	51,757	135.78%
28	2 Inch Irrigation	1,776	3,898	2,122	119.50%
29					
30	Bulk/Construction	3,482	7,339	3,856	110.74%
31					
32	Revenue Annualization	328	634	306	93.31%
33	Subtotal	\$ 203,328	\$ 429,689	\$ 226,361	111.33%
34					
35	Other Water Revenues	3,441	3,441	-	0.00%
36	Reconciling Amount	(585)	(163)	422	-72.14%
37				-	0.00%
38	Total of Water Revenues	\$ 206,184	\$ 432,967	\$ 226,783	109.99%

SUPPORTING SCHEDULES:

42 B-1
43 C-1
44 C-3
45 H-1

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 2,496,640	\$ 2,496,640
3	Less: Accumulated Depreciation	<u>716,486</u>	<u>716,486</u>
4			
5	Net Utility Plant in Service	\$ 1,780,154	\$ 1,780,154
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	294,745	294,745
11			
12	Accumulated Amortization of CIAC	(95,670)	(95,670)
13			
14	Customer Meter Deposits	5,885	5,885
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Working Capital	-	-
25			
26			
27			
28	Total Rate Base	<u>\$ 1,575,194</u>	<u>\$ 1,575,194</u>
29			
30			
31			
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43	<u>SUPPORTING SCHEDULES:</u>		
44	B-2		
45	B-3		
46	B-5		
47	E-1		
48			
49			
50			
51			
52			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 2,496,640	-	\$ 2,496,640
3				
4	Less:			
5	Accumulated			
6	Depreciation	726,406	(9,919)	716,486
7				
8				
9	Net Utility Plant			
10	in Service	\$ 1,770,234		\$ 1,780,154
11				
12	Less:			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	294,745	-	294,745
18				
19	Accumulated Amortization of CIAC	(96,938)	1,267	(95,670)
20				
21	Customer Meter Deposits	5,885	0	5,885
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	Plus:			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	Total	<u>\$ 1,566,542</u>		<u>\$ 1,575,194</u>

SUPPORTING SCHEDULES:

B-2, pages 2

E-1

RECAP SCHEDULES:

B-1

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebutal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at end of Test Year	1 Plant-in- Service	Proforma Adjustments			4 Customer Security Deposits	5 Intentionally Left Blank	Rebutal Adjusted at end of Test Year
				2 Accumulated Depreciation	3 CIAC				
1	Gross Utility								
2	Plant in Service	\$ 2,496,640	-						\$ 2,496,640
3									
4	Less:								
5	Accumulated								
6	Depreciation	726,406		(9,919)					716,486
7									
8									
9	Net Utility Plant								
10	in Service	\$ 1,770,234	\$ -	\$ 9,919	\$ -	\$ -	\$ -	\$ -	\$ 1,780,154
11									
12	Less:								
13	Advances in Aid of								
14	Construction	-							-
15									
16	Contributions in Aid of								
17	Construction (CIAC)	294,745							294,745
18									
19	Accumulated Amort of CIAC	(96,938)			1,267				(95,670)
20									
21	Customer Meter Deposits	5,885							5,885
22	Accumulated Deferred Income Taxes	-							-
23									
24									
25	Plus:								
26	Unamortized Finance								
27	Charges	-							-
28	Prepayments	-							-
29	Materials and Supplies	-							-
30	Allowance for Cash Working Capital	-							-
31									
32	Total	\$ 1,566,542	\$ -	\$ 9,919	\$ (1,267)	\$ -	\$ -	\$ -	\$ 1,575,194

SUPPORTING SCHEDULES:
B-2, pages 3-5
E-1

RECAP SCHEDULES:
B-1

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

		<u>Plant-in-Service</u>						
Line No.		A		B	Adjustments C	D	E	Rebuttal Adjusted Original
		Adjusted Original	Adjustments to Reconcile Plant to Reconstruction	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Cost
1								
2								
3								
4	Acct.							
5	No. Description	Cost						
6	301 Organization Cost	-	-					-
7	302 Franchise Cost	-	-					-
8	303 Land and Land Rights	210,000	-					210,000
9	304 Structures and Improvements	72,997	-					72,997
10	305 Collecting and Impounding Res.	-	-					-
11	306 Lake River and Other Intakes	-	-					-
12	307 Wells and Springs	1,353,539	-					1,353,539
13	308 Infiltration Galleries and Tunnels	-	-					-
14	309 Supply Mains	-	-					-
15	310 Power Generation Equipment	89,125	-					89,125
16	311 Electric Pumping Equipment	158,711	-					158,711
17	320 Water Treatment Equipment	5,487	-					5,487
18	320.1 Water Treatment Plant	-	-					-
19	320.2 Chemical Solution Feeders	-	-					-
20	330 Dist. Reservoirs & Standpipe	321,452	-					321,452
21	330.1 Storage tanks	-	-					-
22	330.2 Pressure Tanks	-	-					-
23	331 Trans. and Dist. Mains	161,632	-					161,632
24	333 Services	86,250	-					86,250
25	334 Meters	-	-					-
26	335 Hydrants	34,500	-					34,500
27	336 Backflow Prevention Devices	-	-					-
28	339 Other Plant and Misc. Equip.	-	-					-
29	340 Office Furniture and Fixtures	2,947	-					2,947
30	340.1 Computers and Software	-	-					-
31	341 Transportation Equipment	-	-					-
32	342 Stores Equipment	-	-					-
33	343 Tools and Work Equipment	-	-					-
34	344 Laboratory Equipment	-	-					-
35	345 Power Operated Equipment	-	-					-
36	346 Communications Equipment	-	-					-
37	347 Miscellaneous Equipment	-	-					-
38	348 Other Tangible Plant	-	-					-
39	Plant Held for Future Use	-	-					-
40	TOTALS	\$ 2,496,640	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,496,640
41								
42	Plant-in-Service per Books							\$ 2,496,640
43								
44	Increase (decrease) in Plant-in-Service							\$ -
45								
46	Adjustment to Plant-in-Service							\$ -
47								
48	<u>SUPPORTING SCHEDULES</u>							
49	B-2, pages 3.1							
50								

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line

No.

1 Reconciliation to Reconstructed Plant-in-Service

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Acct.	Recorded	Removed	Adjusted	Plant	
No.	Original	Deep Well #4	Original	Per	
Description	Cost	Costs	Cost	Reconstruction	Difference
301 Organization Cost	-		-	-	-
302 Franchise Cost	-		-	-	-
303 Land and Land Rights	210,000		210,000	210,000	-
304 Structures and Improvements	81,748	(8,751)	72,997	72,997	-
305 Collecting and Impounding Res.	-		-	-	-
306 Lake River and Other Intakes	-		-	-	-
307 Wells and Springs	2,831,962	(1,478,423)	1,353,539	1,353,539	-
308 Infiltration Galleries and Tunnels	-		-	-	-
309 Supply Mains	-		-	-	-
310 Power Generation Equipment	89,125	(1,725)	87,400	87,400	-
311 Electric Pumping Equipment	158,711		158,711	158,711	-
320 Water Treatment Equipment	5,487		5,487	5,487	-
320.1 Water Treatment Plant	-		-	-	-
320.2 Chemical Solution Feeders	-		-	-	-
330 Dist. Reservoirs & Standpipe	321,452		321,452	321,452	-
330.1 Storage tanks	-		-	-	-
330.2 Pressure Tanks	-		-	-	-
331 Trans. and Dist. Mains	161,632		161,632	161,632	-
333 Services	86,250		86,250	86,250	-
334 Meters	-		-	-	-
335 Hydrants	34,500		34,500	34,500	-
336 Backflow Prevention Devices	-		-	-	-
339 Other Plant and Misc. Equip.	-		-	-	-
340 Office Furniture and Fixtures	4,672		4,672	4,672	-
340.1 Computers and Software	-		-	-	-
341 Transportation Equipment	-		-	-	-
342 Stores Equipment	-		-	-	-
343 Tools and Work Equipment	-		-	-	-
344 Laboratory Equipment	-		-	-	-
345 Power Operated Equipment	-		-	-	-
346 Communications Equipment	-		-	-	-
347 Miscellaneous Equipment	-		-	-	-
348 Other Tangible Plant	-		-	-	-
Plant Held for Future Use	-		-	-	-
TOTALS	\$ 3,985,539	\$ (1,488,899)	\$ 2,496,640	\$ 2,496,640	\$ -

SUPPORTING SCHEDULE

B-2, pages 3.2 - 3.8

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Sourassa

NARUC Account			Allowed Deprec. Rate	Per Decision 70140		2006								
Line No.	Account No.	Description		Plant at 12/31/2005	Accum. Deprec. At 12/31/2005	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	210,000	-	-	-	-	-	-	-	-	210,000	-
4	304	Structures & Improvements	3.33%	72,997	3,846	-	-	-	-	-	2,431	72,997	6,077	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	2,071,821	103,487	-	-	-	-	-	68,992	2,071,821	172,479	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	87,400	6,555	-	-	-	-	-	4,370	87,400	10,925	-
11	311	Pumping Equipment	12.50%	158,711	29,758	-	-	-	-	-	19,839	158,711	49,597	-
12	320	Water Treatment Equipment	3.33%	5,487	274	-	-	-	-	-	183	5,487	457	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	321,452	10,704	-	-	-	-	-	7,136	321,452	17,841	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	147,200	4,416	-	-	-	-	-	2,944	147,200	7,360	-
19	333	Services	3.33%	86,250	4,308	-	-	-	-	-	2,872	86,250	7,180	-
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	-	-	-
21	335	Hydrams	2.00%	34,500	1,035	-	-	-	-	-	690	34,500	1,725	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-
35														
36		TOTALS		3,195,818	164,185	-	-	-	-	-	-	109,456	3,195,818	273,641

Line No.	NARUC Account		Allowed Deprec. Rate	2007							Plant Balance	Accum. Deprec.
	No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	210,000	-
4	304	Structures & Improvements	3.33%	-	-	-	-	-	2,431	72,997	8,508	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	-	-	-	-	-	68,992	2,071,821	241,471	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	4,370	87,400	15,295	-
11	311	Pumping Equipment	12.50%	-	-	-	-	-	19,839	158,711	69,436	-
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	183	5,487	640	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	7,136	321,452	24,977	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	-	-	-	-	-	2,944	147,200	10,304	-
19	333	Services	3.33%	-	-	-	-	-	2,672	86,250	10,052	-
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	-
21	335	Hydrants	2.00%	-	-	-	-	-	690	34,500	2,415	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-
36		TOTALS		-	-	-	-	-	109,456	3,195,818	383,087	-

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008							Plant Balance	Accum. Deprec.
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	210,000	-
4	304	Structures & Improvements	3.33%	6,251	-	6,251	-	-	2,535	79,248	11,043	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
6	306	Lake River Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	-	-	-	-	-	68,992	2,071,821	310,462	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	1,725	-	1,725	-	-	4,413	89,125	19,708	-
11	311	Pumping Equipment	12.50%	-	-	-	-	-	19,839	158,711	89,275	-
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	183	5,487	822	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	7,136	321,452	32,113	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	-	-	-	-	-	2,944	147,200	13,248	-
19	333	Services	3.33%	-	-	-	-	-	2,872	86,250	12,925	-
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	-
21	335	Hydrants	2.00%	-	-	-	-	-	690	34,500	3,105	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	2,552	-	2,552	-	-	85	2,552	85	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-
35												
36		TOTALS		10,528	-	10,528	-	-	-	109,689	3,206,346	492,786

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009								Plant Balance	Accum. Deprec.
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	210,000	-
4	304	Structures & Improvements	3.33%	-	-	-	-	-	-	-	2,639	79,248	13,682
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	753,141	-	753,141	-	-	-	-	81,531	2,824,962	391,994
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	4,456	89,125	24,164
11	311	Pumping Equipment	12.50%	-	-	-	-	-	-	-	19,839	158,711	109,114
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	183	5,487	1,005
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	7,136	321,452	39,249
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	-	-	-	-	-	-	-	-	-	-
19	333	Services	3.33%	-	-	-	-	-	-	-	2,944	147,200	16,192
20	334	Meters	8.33%	-	-	-	-	-	-	-	2,872	86,250	15,797
21	335	Hydrants	2.00%	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	690	34,500	3,795
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	170	2,552	255
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		753,141	-	753,141	-	-	-	-	122,461	3,959,487	615,247

Line No.	NARUC Account		Allowed Deprec. Rate	2010									
	No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	210,000	-
4	304	Structures & Improvements	3.33%	-	-	-	-	-	-	2,639	79,248	16,321	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	-	-	-	-	-	-	94,071	2,824,962	486,065	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	4,456	89,125	28,621	-
11	311	Pumping Equipment	12.50%	-	-	-	-	-	-	19,839	158,711	128,953	-
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	183	5,487	1,188	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	7,136	321,452	46,386	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	-	-	-	-	-	-	2,944	147,200	19,136	-
19	333	Services	3.33%	-	-	-	-	-	-	2,872	86,250	18,669	-
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	2.00%	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	690	34,500	4,485	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	170	2,552	428	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-
36		TOTALS		-	-	-	-	-	-	-	135,001	3,959,487	750,248

Line No.	NARUC Account		Allowed Deprec. Rate	2011								Plant Balance	Accum. Deprac.
	No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	210,000	-
4	304	Structures & Improvements	3.33%	2,500	-	2,500	-	-	-	-	2,681	81,748	19,001
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	7,000	-	7,000	-	-	-	-	94,188	2,831,962	580,253
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	4,456	89,125	33,077
11	311	Pumping Equipment	12.50%	-	-	-	-	-	-	-	19,839	158,711	148,792
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	183	5,487	1,370
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	7,136	321,452	53,522
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	14,432	-	14,432	-	-	-	-	3,088	161,632	22,224
19	333	Services	3.33%	-	-	-	-	-	-	-	2,872	86,250	21,541
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	2.00%	-	-	-	-	-	-	-	690	34,500	5,175
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	170	2,552	596
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use	-	-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		23,932	-	23,932	-	-	-	-	135,303	3,983,419	885,551

NARUC			Allowed Deprec. Rate	2012												
Line	Account	Description		Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Retirement Adjustments	Adjusted Plant Retirements	Plant Adjustments	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.		
No.	No.			(Per Books)				(Per Books)							Deprec.	
1	301	Organization Cost			-	-	-	-	-	-	-	-	-	-		
2	302	Franchise Cost			-	-	-	-	-	-	-	-	-	-		
3	303	Land and Land Rights			-	-	-	-	-	-	-	210,000	-	-		
4	304	Structures & Improvements			3.33%	-	-	-	-	(8,751)	(1,062)	2,722	72,997	20,662		
5	305	Collecting & Impounding Reservoirs			2.50%	-	-	-	-	-	-	-	-	-		
6	306	Lake, River, Canal Intakes			2.50%	-	-	-	-	-	-	-	-	-		
7	307	Wells & Springs			3.33%	-	-	-	-	(1,478,423)	(293,372)	94,304	1,353,539	381,185		
8	308	Infiltration Galleries			6.67%	-	-	-	-	-	-	-	-	-		
9	309	Raw Water Supply Mains			2.00%	-	-	-	-	-	-	-	-	-		
10	310	Power Generation Equipment			5.00%	-	-	-	-	(1,725)	(388)	4,456	87,400	37,145		
11	311	Pumping Equipment			12.50%	-	-	-	-	-	-	9,919	158,711	158,711		
12	320	Water Treatment Equipment			3.33%	-	-	-	-	-	-	183	5,487	1,553		
13	320.1	Water Treatment Plants			3.33%	-	-	-	-	-	-	-	-	-		
14	320.2	Solution Chemical Feeders			20.00%	-	-	-	-	-	-	-	-	-		
15	330	Distribution Reservoirs & Standpipes			2.22%	-	-	-	-	-	-	7,136	321,452	60,658		
16	330.1	Storage Tanks			2.22%	-	-	-	-	-	-	-	-	-		
17	330.2	Pressure Tanks			5.00%	-	-	-	-	-	-	-	-	-		
18	331	Transmission & Distribution Mains			2.00%	-	-	-	-	-	-	-	-	-		
19	333	Services			3.33%	-	-	-	-	-	-	3,233	161,632	25,467		
20	334	Meters			8.33%	-	-	-	-	-	-	2,872	86,250	24,413		
21	335	Hydrants			2.00%	-	-	-	-	-	-	-	-	-		
22	336	Backflow Prevention Devices			6.67%	-	-	-	-	-	-	690	34,500	5,865		
23	339	Other Plant & Misc Equipment			6.67%	-	-	-	-	-	-	-	-	-		
24	340	Office Furniture & Equipment			6.67%	2,119	-	2,119	-	-	-	241	4,672	837		
25	340.1	Computers & Software			20.00%	-	-	-	-	-	-	-	-	-		
26	341	Transportation Equipment			20.00%	-	-	-	-	-	-	-	-	-		
27	342	Stores Equipment			4.00%	-	-	-	-	-	-	-	-	-		
28	343	Tools, Shop & Garage Equipment			5.00%	-	-	-	-	-	-	-	-	-		
29	344	Laboratory Equipment			10.00%	-	-	-	-	-	-	-	-	-		
30	345	Power Operated Equipment			5.00%	-	-	-	-	-	-	-	-	-		
31	346	Communication Equipment			10.00%	-	-	-	-	-	-	-	-	-		
32	347	Miscellaneous Equipment			10.00%	-	-	-	-	-	-	-	-	-		
33	348	Other Tangible Plant			10.00%	-	-	-	-	-	-	-	-	-		
34		Plant Held for Future Use				-	-	-	-	-	-	-	-	-		
35																
36		TOTALS				2,119	-	2,119	-	-	-	(1,488,899)	(294,821)	125,757	2,496,640	716,486

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

		<u>Accumulated Depreciation</u>						
Line No.			A	B	<u>Adjustments</u> C	D	E	Rebuttal
		Adjusted Accum. Depr.	Adjustments To Reconcile Plant To Reconstruction	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Adjusted Accum. Depr.
1								
2								
3								
4	Acct.							
5	No. Description							
6	301 Organization Cost	-	-					-
7	302 Franchise Cost	-	-					-
8	303 Land and Land Rights	-	-					-
9	304 Structures and Improvements	20,662	-					20,662
10	305 Collecting and Impounding Res.	-	-					-
11	306 Lake River and Other Intakes	-	-					-
12	307 Wells and Springs	381,185	-					381,185
13	308 Infiltration Galleries and Tunnels	-	-					-
14	309 Supply Mains	-	-					-
15	310 Power Generation Equipment	37,145	-					37,145
16	311 Electric Pumping Equipment	168,630	(9,919)					158,711
17	320 Water Treatment Equipment	1,553	-					1,553
18	320.1 Water Treatment Plant	-	-					-
19	320.2 Chemical Solution Feeders	-	-					-
20	330 Dist. Reservoirs & Standpipe	60,658	-					60,658
21	330.1 Storage tanks	-	-					-
22	330.2 Pressure Tanks	-	-					-
23	331 Trans. and Dist. Mains	25,457	-					25,457
24	333 Services	24,413	-					24,413
25	334 Meters	-	-					-
26	335 Hydrants	5,865	-					5,865
27	336 Backflow Prevention Devices	-	-					-
28	339 Other Plant and Misc. Equip.	-	-					-
29	340 Office Furniture and Fixtures	837	-					837
30	340.1 Computers and Software	-	-					-
31	341 Transportation Equipment	-	-					-
32	342 Stores Equipment	-	-					-
33	343 Tools and Work Equipment	-	-					-
34	344 Laboratory Equipment	-	-					-
35	345 Power Operated Equipment	-	-					-
36	346 Communications Equipment	-	-					-
37	347 Miscellaneous Equipment	-	-					-
38	348 Other Tangible Plant	-	-					-
39								
40	TOTALS	\$ 726,406	\$ (9,919)	\$ -	\$ -	\$ -	\$ -	\$ 716,486
41								
42	Accumulated Depreciation per Books							\$ 726,406
43								
44	Increase (decrease) in Accumulated Depreciation							\$ (9,919)
45								
46	Adjustment to Accumulated Depreciation							\$ (9,919)
47								
48	<u>SUPPORTING SCHEDULES</u>							
49	B-2, pages 4.1							
50	B-2, pages 4.2							

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line
No.

1	<u>Reconciliation to Reconstructed Accumulated Depreciation</u>					
2						
3						
4	Acct.	Adjusted	Adjusted	Accumulated		
5	No.	Accumulated	Accumulated	Depreciation		
6	<u>Description</u>	<u>Depreciation</u>	<u>Depreciation</u>	<u>Reconstruction</u>	<u>Difference</u>	
7	301 Organization Cost	-	-	-	-	
8	302 Franchise Cost	-	-	-	-	
9	303 Land and Land Rights	-	-	-	-	
10	304 Structures and Improvements	20,662	20,662	20,662	-	
11	305 Collecting and Impounding Res.	-	-	-	-	
12	306 Lake River and Other Intakes	-	-	-	-	
13	307 Wells and Springs	381,185	381,185	381,185	-	
14	308 Infiltration Galleries and Tunnels	-	-	-	-	
15	309 Supply Mains	-	-	-	-	
16	310 Power Generation Equipment	37,145	37,145	37,145	-	
17	311 Electric Pumping Equipment	168,630	168,630	158,711	(9,919)	
18	320 Water Treatment Equipment	1,553	1,553	1,553	-	
19	320.1 Water Treatment Plant	-	-	-	-	
20	320.2 Chemical Solution Feeders	-	-	-	-	
21	330 Dist. Reservoirs & Standpipe	60,658	60,658	60,658	-	
22	330.1 Storage tanks	-	-	-	-	
23	330.2 Pressure Tanks	-	-	-	-	
24	331 Trans. and Dist. Mains	25,457	25,457	25,457	-	
25	333 Services	24,413	24,413	24,413	-	
26	334 Meters	-	-	-	-	
27	335 Hydrants	5,865	5,865	5,865	-	
28	336 Backflow Prevention Devices	-	-	-	-	
29	339 Other Plant and Misc. Equip.	-	-	-	-	
30	340 Office Furniture and Fixtures	837	837	837	-	
31	340.1 Computers and Software	-	-	-	-	
32	341 Transportation Equipment	-	-	-	-	
33	342 Stores Equipment	-	-	-	-	
34	343 Tools and Work Equipment	-	-	-	-	
35	344 Laboratory Equipment	-	-	-	-	
36	345 Power Operated Equipment	-	-	-	-	
37	346 Communications Equipment	-	-	-	-	
38	347 Miscellaneous Equipment	-	-	-	-	
39	348 Other Tangible Plant	-	-	-	-	
40	Plant Held for Future Use	-	-	-	-	
41	TOTALS	\$ 726,406	\$ 726,406	\$ 716,486	\$ (9,919)	
42						
43	<u>SUPPORTING SCHEDULE</u>					
44	B-2, pages 4.1					
45	B-2, pages 3.3 - 3.9					

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.0
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line

No.

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Computed balance at end of test year

Adjusted balance at end of test year

Increase (decrease)

Adjustment to CIAC/AA CIAC

Label

Gross
CIAC

\$ 294,745

\$ 294,745

\$ -

\$ -

3a

Accumulated
Amortization

\$ 95,670

\$ 96,938

\$ (1,267)

\$ 1,267

3b

SUPPORTING SCHEDULES

E-1

B-2, page 5.1

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Contributions-in-aid of Construction (CIAC)

Exhibit
 Rebutal Schedule B-2
 Page 5.1
 Witness: Bourassa

Line

No.

		2006		2007		2008		2009	
	Balance		Balance		Balance		Balance		Balance
	12/31/2005	Additions	12/31/2006	Additions	12/31/2007	Additions	12/31/2008	Additions	12/31/2009
5	294,745		294,745		294,745		294,745		294,745
7	16,207								
8			3.67%		3.67%		3.66%		3.27%
9			10,817		10,817		10,788		9,638
10			27,024		37,841		48,629		58,267
12	278,538	-	267,721	-	256,904	-	246,116	-	236,478

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2010		2011		2012	
	Balance		Balance		Balance
Additions	12/31/2010	Additions	12/31/2011	Additions	12/31/2012
	294,745	-	294,745	-	294,745
	3.60%		3.59%		5.50%
	10,611		10,581		16,211
	68,878		79,459		95,670
-	225,867	-	215,286	-	199,075

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Customer Deposits

Exhibit
Rebuttal Schedule B-2
Page 6.0
Witness: Bourassa

Line
No.

1		
2		
3		
4	Computed balance at end of test year	\$ 5,885
5		
6	Book balance at end of test year	<u>\$ 5,885</u>
7		
8	Increase (decrease)	\$ -
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		

19 SUPPORTING SCHEDULES

20 Testimony
21 Work papers
22
23
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	10,275
3	Pumping Power (1/24 of Pumping Power)		2,783
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	\$	13,058
10			
11			
12	Working Capital Requested	\$	-
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	212,069
19	Less:		
20	Income Tax	\$	(1,475)
21	Property Tax		7,464
22	Depreciation		57,091
23	Purchased Water		-
24	Pumping Power		66,787
25	Allowable Expenses	\$	82,202
26	1/8 of allowable expenses	\$	10,275
27			
28			
29	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
30	E-1	B-1	
31			
32			
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39			
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Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 202,743	\$ -	\$ 202,743	\$ 226,783	\$ 429,526
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	5,261	(1,820)	3,441	-	3,441
5		<u>\$ 208,004</u>	<u>\$ (1,820)</u>	<u>\$ 206,184</u>	<u>\$ 226,783</u>	<u>\$ 432,967</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -	-	\$ -
8	Purchased Water	-	-	-	-	-
9	Purchased Power	66,787	-	66,787	-	66,787
10	Fuel For Power Production	-	-	-	-	-
11	Chemicals	1,460	-	1,460	-	1,460
12	Materials and Supplies	12,257	-	12,257	-	12,257
13	Office Supplies and Expense	2,399	-	2,399	-	2,399
14	Contractual Services - Accounting	20,253	-	20,253	-	20,253
15	Contractual Services - Professional	9,651	-	9,651	-	9,651
16	Contractual Services - Maintenance	-	-	-	-	-
17	Contractual Services - Other	-	-	-	-	-
18	Water Testing	8,107	(6,637)	1,470	-	1,470
19	Rents	-	-	-	-	-
20	Transportation Expenses	-	(1,750)	(1,750)	-	(1,750)
21	Insurance - General Liability	2,186	-	2,186	-	2,186
22	Insurance - Health and Life	-	-	-	-	-
23	Reg. Comm. Exp. - Other	-	-	-	-	-
24	Reg. Comm. Exp. - Rate Case	10,000	6,667	16,667	-	16,667
25	Miscellaneous Expense	19,976	(2,366)	17,610	-	17,610
26	Bad Debt Expense	-	-	-	-	-
27	Depreciation and Amortization Expense	57,728	(637)	57,091	-	57,091
28	Taxes Other Than Income	-	-	-	-	-
29	Property Taxes	7,530	(66)	7,464	2,737	10,201
30	Income Tax	(2,064)	590	(1,475)	44,890	43,415
31	Total Operating Expenses	<u>\$ 216,269</u>	<u>\$ (4,200)</u>	<u>\$ 212,069</u>	<u>\$ 47,627</u>	<u>\$ 259,696</u>
32	Operating Income	<u>\$ (8,265)</u>	<u>\$ 2,380</u>	<u>\$ (5,885)</u>	<u>\$ 179,157</u>	<u>\$ 173,271</u>
33	Other Income (Expense)					
34	Interest Income	-	-	-	-	-
35	Other income	-	-	-	-	-
36	Interest Expense	-	-	-	-	-
37	Other Expense	-	-	-	-	-
38		-	-	-	-	-
39	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
40	Net Profit (Loss)	<u><u>\$ (8,265)</u></u>	<u><u>\$ 2,380</u></u>	<u><u>\$ (5,885)</u></u>	<u><u>\$ 179,157</u></u>	<u><u>\$ 173,271</u></u>

SUPPORTING SCHEDULES:

C-1, page 2

E-2

RECAP SCHEDULES:

A-1

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.1
Witness: Bourassa

Line No.	LABEL>>>>>	1	2	3	4	5	6	7
	Test Year Adjusted Results	Depreciation	Property Taxes	Rate Case Expense	Revenue Adjustment	Water Testing	Auto Expense	Telephone Expense
1	Revenues							
2	Metered Water Revenues	\$ 202,743						
3	Unmetered Water Revenues	-						
4	Other Water Revenues	5,261			(1,820)			
5		\$ 208,004	\$ -	\$ -	\$ -	\$ (1,820)	\$ -	\$ -
6	Operating Expenses							
7	Salaries and Wages	\$ -						
8	Purchased Water	-						
9	Purchased Power	66,787						
10	Fuel For Power Production	-						
11	Chemicals	1,460						
12	Materials and Supplies	12,257						
13	Office Supplies and Expense	2,399						
14	Contractual Services - Accounting	20,253						
15	Contractual Services - Professional	9,651						
16	Contractual Services - Maintenance	-						
17	Contractual Services - Other	-						
18	Water Testing	8,107				(6,637)		
19	Rents	-						
20	Transportation Expenses	-					(1,750)	
21	Insurance - General Liability	2,186						
22	Insurance - Health and Life	-						
23	Reg. Comm. Exp. - Other	-						
24	Reg. Comm. Exp. - Rate Case	10,000		6,667				
25	Miscellaneous Expense	19,976						(2,366)
26	Bad Debt Expense	-						
27	Deprec. and Amort. Exp.	57,728	(637)					
28	Taxes Other Than Income	-						
29	Property Taxes	7,530	(66)					
30	Income Tax	(2,064)						
31	Total Operating Expenses	\$ 216,269	\$ (637)	\$ (66)	\$ 6,667	\$ -	\$ (6,637)	\$ (1,750)
32	Operating Income	\$ (8,265)	\$ 637	\$ 66	\$ (6,667)	\$ (1,820)	\$ 6,637	\$ 2,366
33	Other Income (Expense)							
34	Interest Income	-						
35	Other income	-						
36	Interest Expense	-						
37	Other Expense	-						
38		-						
39	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40	Net Profit (Loss)	\$ (8,265)	\$ 637	\$ 66	\$ (6,667)	\$ (1,820)	\$ 6,637	\$ 2,366
41								
42	<u>SUPPORTING SCHEDULES:</u>							
43	C-2							
44	E-2							

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.2
Witness: Bourassa

Line No.	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues						
2					\$ 202,743	\$ 226,783	\$ 429,526
3					-	-	-
4					3,441	-	3,441
5	\$ -	\$ -	\$ -	\$ -	\$ 206,184	\$ 226,783	\$ 432,967
6	Operating Expenses						
7					\$ -	\$ -	-
8					-	-	-
9					66,787	-	66,787
10					-	-	-
11					1,460	-	1,460
12					12,257	-	12,257
13					2,399	-	2,399
14					20,253	-	20,253
15					9,651	-	9,651
16					-	-	-
17					-	-	-
18					1,470	-	1,470
19					-	-	-
20					(1,750)	-	(1,750)
21					2,186	-	2,186
22					-	-	-
23					-	-	-
24					16,667	-	16,667
25					17,610	-	17,610
26					-	-	-
27					57,091	-	57,091
28					-	-	-
29					7,464	2,737	10,201
30				590	(1,475)	44,890	43,415
31	\$ -	\$ -	\$ -	\$ -	590	\$ 212,069	\$ 47,627
32	\$ -	\$ -	\$ -	\$ -	(590)	\$ 5,885	\$ 179,157
33	Other Income (Expense)						
34					-	-	-
35					-	-	-
36					-	-	-
37					-	-	-
38					-	-	-
39	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40	\$ -	\$ -	\$ -	\$ -	(590)	\$ 5,885	\$ 179,157
41	Net Profit (Loss)						
42							
43							
44							

SUPPORTING SCHEDULES:

C-2
E-2

RECAP SCHEDULES:

C-1, page 1

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
	Depreciation <u>Expense</u>	Property <u>Taxes</u>	Rate Case <u>Expense</u>	Revenue <u>Adjustment</u>	Water <u>Testing</u>	Auto <u>Expense</u>	
1							
2							
3							
4	Revenues			(1,820)			(1,820)
5							
6	Expenses	(637)	(66)	6,667	(6,637)	(1,750)	(2,423)
7							
8	Operating						
9	Income	637	66	(6,667)	(1,820)	6,637	603
10							
11	Interest						
12	Expense						
13	Other						
14	Income /						
15	Expense						
16							
17	Net Income	637	66	(6,667)	(1,820)	6,637	603
18							
19							
20							
21	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
22	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>		
23	Telephone	Intentionally	Intentionally	Intentionally	Income		
24	<u>Expense</u>	<u>Left</u>	<u>Left</u>	<u>Left</u>	<u>Taxes</u>		
25		<u>Blank</u>	<u>Blank</u>	<u>Blank</u>			
26	Revenues						(1,820)
27							
28	Expenses	(2,366)	-	-	590	-	(4,200)
29							
30	Operating						
31	Income	2,366	-	-	(590)	-	2,380
32							
33	Interest						
34	Expense						
35	Other						
36	Income /						
37	Expense						
38	Net Income	2,366	-	-	(590)	-	2,380
39							
40							

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line
No.

*Fully Depreciated

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 206,184	\$ 206,184
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	412,368	412,368
4	Company Recommended Revenue	206,184	432,967
5	Subtotal (Line 4 + Line 5)	618,552	845,336
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	206,184	281,779
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	412,368	563,557
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	412,368	563,557
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	82,474	112,711
15	Composite Property Tax Rate - Obtained from ADOR	9.0503%	9.0503%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 7,464	\$ 10,201
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 7,464	-
19	Test Year Property Taxes	\$ 7,530	-
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (66)	-
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 10,201
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 7,464
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 2,737
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 2,737
27	Increase in Revenue Requirement		\$ 226,783
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.20671%
29			
30			
31			
32			
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line

No.

1		
2		
3	Estimated Rate Case Expense	\$ 50,000
4		
5	Estimated Amortization Period in Years	3
6		
7	Annual Rate Case Expense	\$ 16,667
8		
9	Adjusted Test Year Rate Case Expense	\$ 10,000
10		
11	Increase(decrease) Rate Case Expense	\$ 6,667
12		
13	Adjustment to Revenue and/or Expense	\$ 6,667
14		
15		
16	<u>Reference</u>	
17	Testimony	
18		
19		
20		

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

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Revenue Adjustment

Line
No.

1		
2	Revenue Adjustment	\$ (1,820)
3		
4		
5		
6	Total Revenue from Annualization	<u>\$ (1,820)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (1,820)</u>
10		
11	<u>Reference</u>	
12	Staff Adjustment # 1	
13		
14		
15		
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

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Water Testing

Line

No.

1		
2	Staff Recommended Water Testing Expense	\$ 1,470
3		
4	Adjuste Test Year Water Testing Expense	\$ 8,107
5		
6	Adjustment to purchased power expense (rounded)	<u>\$ (6,637)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(6,637)</u>
10		
11	<u>Reference</u>	
12	Staff Adjustment #3	
13		
14		
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
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Witness: Bourassa

Auto Expense

Line
No.

1		
2	Test Year Auto Expense	\$ 1,500
3		
4	Staff Recommended Auto Expense	3,250
5		
6	Adjustment to Revenues	<u>\$ (1,750)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(1,750)</u>
10		
11	<u>Reference</u>	
12	Staff Adjustment #4	
13		
14		
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19		
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Telephone Expense

Line
No.

1			
2	Staff Recommended Telephone Expense	\$	2,366
3			
4	Adjusted Test Year Telephone Expense		4,732
5			
6	Adjustment to Revenues	<u>\$</u>	<u>(2,366)</u>
7			
8			
9	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(2,366)</u>
10			
11	<u>Reference</u>		
12	Staff Adjustment #5		
13			
14			
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17			
18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
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Page 9
Witness: Bourassa

Intentionally Left Blank

Line
No.

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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

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Intentionally Left Blank

Line
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Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
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Line
No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

16

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**Test Year
at Present Rates**

\$ (1,475)

(2,064)

\$ 590

**Test Year
at Proposed Rates**

\$ 43,415

(1,475)

\$ 44,890

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	20.036%
2		
3	Property Taxes	<u>0.965%</u>
4		
5		
6	Total Tax Percentage	21.001%
7		
8	Operating Income % = 100% - Tax Percentage	78.999%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.2658
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
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Utility Source, LLC - Water Division
Test Year Ended December 31, 2012

Exhibit
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Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.0009%					
5	Subtotal (L3 - L4)	78.9991%					
6	Revenue Conversion Factor (L1 / L5)	1.265838					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	20.0360%					
9	One Minus Combined Income Tax Rate (L7 - L8)	79.9640%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	3.1527%					
14	Federal Taxable Income (L12 - L13)	96.8473%					
15	Applicable Federal Income Tax Rate (L55 Col F)	17.4329%					
16	Effective Federal Income Tax Rate (L14 x L15)	16.8833%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		20.0360%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	20.0360%					
20	One Minus Combined Income Tax Rate (L18-L19)	79.9640%					
21	Property Tax Factor	1.2067%					
22	Effective Property Tax Factor (L20*L21)		0.9649%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.0009%			
24	Required Operating Income	\$ 173,271					
25	Adjusted Test Year Operating Income (Loss)	\$ (5,885)					
26	Required Increase in Operating Income (L24 - L25)		\$ 179,157				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 43,415					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (1,475)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 44,890				
30	Recommended Revenue Requirement	\$ 432,967					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 10,201					
36	Property Tax on Test Year Revenue	\$ 7,464					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 2,737				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 226,783				

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 206,184	\$ 206,184	\$ 432,967	\$ 432,967	\$ 432,967
40	Operating Expenses Excluding Income Taxes	213,544	213,544	216,281	216,281	216,281
41	Synchronized Interest (L47)					
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (7,360)	\$ (7,360)	\$ 216,687	\$ 216,687	\$ 216,687
43	Arizona State Effective Income Tax Rate (see work papers)	3.1527%	3.1527%	3.1527%	3.1527%	3.1527%
44	Arizona Income Tax (L42 x L43)	\$ (232)	\$ (232)	\$ 6,831	\$ 6,831	\$ 6,831
45	Federal Taxable Income (L42 - L44)	\$ (7,128)	\$ (7,128)	\$ 209,855	\$ 209,855	\$ 209,855
46	Federal Tax Rate	17.4329%	17.4329%	17.4329%	17.4329%	17.4329%
47	Federal Tax	\$ (1,243)	\$ (1,243)	\$ 36,584	\$ 36,584	\$ 36,584
48						
49						
50						
51						
52						
53	Total Federal Income Tax	\$ (1,243)	\$ (1,243)	\$ 36,584	\$ 36,584	\$ 36,584
54	Combined Federal and State Income Tax (L35 + L42)	\$ (1,475)	\$ (1,475)	\$ 43,415	\$ 43,415	\$ 43,415
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45]			17.4329%	0.0000%	17.4329%
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]					
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]					

Calculation of Interest Synchronization:

58 Rate Base
59 Weighted Average Cost of Debt
60 Synchronized Interest (L59 X L60)

Wastewater	Water
\$ 1,575,194	\$ 1,575,194
0.0000%	0.0000%
\$ -	\$ -

Utility Source, LLC - Water Division
Revenue Summary
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	\$ 159,301	\$ 327,130	\$ 167,829	105.35%	77.26%	75.56%
2	3/4 Inch	Commercial	322	811	490	152.32%	0.16%	0.19%
3	2 Inch	Commercial	38,120	89,877	51,757	135.78%	18.49%	20.76%
4	2 Inch	Irrigation	1,776	3,898	2,122	119.50%	0.86%	0.90%
5								
6	Bulk/Construction		3,482	7,339	3,856	110.74%	1.69%	1.69%
7								
8								
9	Subtotals of Revenues		\$ 203,001	\$ 429,056	\$ 226,055	111.36%	98.46%	99.10%
10	Revenue Annualizations:							
11	3/4 Inch	Residential	\$ 328	\$ 634	\$ 306	93.31%	0.16%	0.15%
12								
13								
14								
15	Bulk/Construction		-	-	-	0.00%	0.00%	0.00%
16	Subtotal Revenue Annualization		328	634	306	93.31%	0.16%	0.31%
17								
18	Total Revenues w/ Annualization		\$ 203,328	\$ 429,689	\$ 226,361	111.33%	98.61%	99.24%
19	Misc Revenues, as adjusted		3,441	3,441	-	0.00%	1.67%	0.79%
20	Reconciling Amount		(585)	(163)	422	-72.14%	-0.28%	-0.04%
21	Total Revenues		\$ 206,184	\$ 432,967	\$ 226,783	109.99%	100.00%	100.00%
22								
23								

Utility Source, LLC - Water Division
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

Exhibit
 Rebuttal Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill		Proposed Increase		Percent of Customers
		Present Rates		Proposed Rates	Dollar Amount	Percent Amount		
1	3/4 Inch Residential	320	4,123	\$ 38.58	\$ 75.54	\$ 36.96	95.81%	98.16%
2	3/4 Inch Commercial	1	1,667	26.50	66.86	40.36	152.30%	0.31%
3	2 Inch Commercial	3	115,286	1,004.10	2,268.34	1,264.24	125.91%	0.92%
4	2 Inch Irrigation	1	-	\$ 148.00	\$ 324.86	\$ 176.86	119.50%	0.31%
5								
6	Construction/Bulk	1	26,251	290.19	611.56	321.36	110.74%	0.31%
7								
8								
9								
10								
11								
12	Totals	<u>326</u>						<u>100.00%</u>
13								
14	Actual Year End Number of Customers:	<u>327</u>						
15								
16								
17								
18								
19								

Utility Source, LLC - Water Division
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

Docket No. WS-04235A-13-0331

Exhibit
 Rebuttal Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill		Proposed Increase		Percent of Customers
					Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	3/4 Inch	Residential	320	3,500	\$ 35.30	\$ 69.48	\$ 34.18	96.83%	98.16%
2	3/4 Inch	Commercial	1	1,500	\$ 25.70	\$ 64.23	\$ 38.53	149.93%	0.31%
3	2 Inch	Commercial	3	65,000	613.40	1,348.61	735.21	119.86%	0.92%
4	2 Inch	Irrigation	1	-	\$ 148.00	\$ 324.86	\$ 176.86	119.50%	0.31%
5									
6	Construction/Bulk		1	40,501	437.69	921.50	483.82	110.54%	0.31%
7									
8									
9									
10									
11	Totals		<u>326</u>						<u>100.00%</u>
12									
13	Actual Year End Number								
14	of Customers:		<u>327</u>						
15									
16									
17									
18									

Utility Source, LLC - Water Division
Revenue Breakdown Summary
Present Rates

Exhibit
Rebuttal Schedule H-2
Page 3
Witness: Bourassa

		<u>Monthly Mins</u>	<u>Commodity First Tier</u>	<u>Commodity Second Tier</u>	<u>Commodity Third Tier</u>	<u>Total</u>
3/4 Inch	Residential	\$ 71,262	\$ 54,684	\$ 23,774	\$ 9,908	\$ 159,629
3/4 Inch	Commercial	\$ 222	\$ 89	\$ 11	\$ -	\$ 322
2 Inch	Commercial	\$ 5,328	\$ 14,424	\$ 18,368	\$ -	\$ 38,120
2 Inch	Irrigation	\$ 1,776	\$ -	\$ -	\$ -	\$ 1,776
Construction/Bulk		\$ 222	\$ 3,260	\$ -	\$ -	\$ 3,482
TOTALS		<u>\$ 78,810</u>	<u>\$ 72,457</u>	<u>\$ 42,153</u>	<u>\$ 9,908</u>	<u>\$ 203,328</u>
Percent of Total		38.76%	35.64%	20.73%	4.87%	100.00%
Cumulative %		38.76%	74.40%	95.13%	100.00%	

	<u>Amount</u>	<u>% of Revenues</u>
<u>Monthly Minimum Revenues</u>	\$ 78,810	38.76%

Commodity Revenues

Lowest Commodity Rate	\$ 54,773	26.94%
Middle Commodity Rate	\$ 38,209	18.79%
Highest Commodity rate	\$ 31,536	15.51%
Subtotal Commodity Revenues	<u>\$ 124,518</u>	<u>61.24%</u>

Total Revenues	<u>\$ 203,328</u>	<u>100.00%</u>
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Utility Source, LLC - Water Division
Revenue Breakdown Summary
Proposed Rates

Exhibit
Rebuttal Schedule H-2
Page 4
Witness: Bourassa

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
3/4 Inch	Residential	\$ 156,420	\$ 93,988	\$ 52,297	\$ 25,059	\$ 327,764
3/4 Inch	Commercial	\$ 487	\$ 291	\$ 33	\$ -	\$ 811
2 Inch	Commercial	\$ 11,695	\$ 31,729	\$ 46,454	\$ -	\$ 89,877
2 Inch	Irrigation	\$ 3,898	\$ -	\$ -	\$ -	\$ 3,898
Construction/Bulk		\$ 487	\$ 6,851	\$ -	\$ -	\$ 7,339
TOTALS		<u>\$ 172,988</u>	<u>\$ 132,860</u>	<u>\$ 98,783</u>	<u>\$ 25,059</u>	<u>\$ 429,689</u>
Percent of Total		40.26%	30.92%	22.99%	5.83%	100.00%
Cumulative %		40.26%	71.18%	94.17%	100.00%	

	Amount	% of Revenues
<u>Monthly Minimum Revenues</u>	\$ 172,988	40.26%

Commodity Revenues

Lowest Commodity Rate	\$ 94,280	21.94%
Middle Commodity Rate	\$ 84,058	19.56%
Highest Commodity rate	\$ 78,364	18.24%
Subtotal Commodity Revenues	<u>\$ 256,701</u>	59.74%

Total Revenues	<u>\$ 429,689</u>	100.00%
----------------	-------------------	---------

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	<u>Meter Size (All Classes):</u>				
2	5/8x3/4 Inch	\$ 18.50	\$ 40.61	\$ 22.11	119.50%
2	3/4 Inch	18.50	40.61	22.11	119.50%
3	1 Inch	46.50	101.52	55.02	118.32%
4	1 1/2 Inch	92.50	203.04	110.54	119.50%
5	2 Inch	148.00	324.86	176.86	119.50%
6	3 Inch	296.00	649.72	353.72	119.50%
7	4 Inch	462.50	1,015.19	552.69	119.50%
8	6 Inch	925.00	2,030.38	1,105.38	119.50%
9					
10					
11					
12	<u>Gallons In Minimum (All Classes)</u>	-	-		
13					
14			(Per 1,000 gallons)		
15			<u>Present Rate</u>	<u>Proposed Rate</u>	
16	<u>Commodity Rates</u>	<u>Block</u>			
17					
18	5/8x3/4 Inch (Residential, Commercial)	1 gallons to 4,000 gallons	\$ 4.80	\$ 8.25	
19		4,001 gallons to 9,000 gallons	\$ 7.16	\$ 15.75	
20		over 9,000 gallons	\$ 8.60	\$ 21.75	
21					
22	3/4 Inch Meter (Residential, Commercial)	1 gallons to 4,000 gallons	\$ 4.80	\$ 8.25	
23		4,001 gallons to 9,000 gallons	\$ 7.16	\$ 15.75	
24		over 9,000 gallons	\$ 8.60	\$ 21.75	
25					
26	1 Inch Meter (Residential, Commercial)	1 gallons to 27,000 gallons	\$ 4.80	\$ 15.75	
27		over 27,000 gallons	\$ 7.16	\$ 21.75	
28					
29	1.5 Inch Meter (Residential, Commercial)	Over Minimum up to 57,000 gallons	\$ 4.80	\$ 15.75	
30		Over 57,000 gallons	\$ 7.16	\$ 21.75	
31					
32	2 Inch Meter (Residential, Commercial)	1 gallons to 94,000 gallons	\$ 4.80	\$ 15.75	
33		over 94,000 gallons	\$ 7.16	\$ 21.75	
34					
35	3 Inch Meter (Residential, Commercial)	1 gallons to 195,000 gallons	\$ 4.80	\$ 15.75	
36		over 195,000 gallons	\$ 7.16	\$ 21.75	
37					
38					
39					
40	NT = No Tariff				
41					

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 2

Line
No.

		(Per 1,000 gallons)	
		Present	Proposed
		Rate	Rate
3	Commodity Rates		
4	Block		
5	4 Inch Meter (Residential, Commercial)	\$ 4.80	\$ 15.75
6	over 309,000 gallons	\$ 7.16	\$ 21.75
7	6 Inch Meter (Residential, Commercial)	\$ 4.80	\$ 15.75
8	over 615,000 gallons	\$ 7.16	\$ 21.75
9			
10	Irrigation Meters	\$ 9.26	\$ 15.75
11			
12	Standpipe or Bulk	\$ 10.35	\$ 21.75
13			
14	Construction	\$ 10.35	\$ 21.75
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
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28			
29			
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34			
35			
36			
37			
38			
39			
40			
41			
42	Construction/Standpipe	NT	\$ 21.75
43			
44	NT = No Tariff		

Utility Source, LLC - Water Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line
No.

<u>Meter and Service Line Charges¹</u>							
	Present Service Line Charge	Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install- ation Charge	Total Proposed Charge	
7 5/8 x 3/4 Inch			\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00	
8 3/4 Inch			575.00	415.00	205.00	620.00	
9 1 Inch			660.00	465.00	265.00	730.00	
10 1 1/2 Inch			900.00	520.00	475.00	995.00	
11 2 Inch Turbo			1,525.00	800.00	995.00	1,795.00	
12 2 Inch, Compound			2,320.00	800.00	1,840.00	2,640.00	
13 3 Inch Turbo			2,275.00	1,015.00	1,620.00	2,635.00	
14 3 Inch, compound			3,110.00	1,135.00	2,495.00	3,630.00	
15 4 Inch Turbo			3,360.00	1,430.00	2,570.00	4,000.00	
16 4 Inch, compound			4,475.00	1,610.00	3,545.00	5,155.00	
17 6 Inch Turbo			6,035.00	2,150.00	4,925.00	7,075.00	
18 6 Inch, compound			8,050.00	2,270.00	6,820.00	9,090.00	

¹ Based on ACC Staff Engineering Memo dated February 21, 2008

Other Charges:

Establishment	\$ 20.00	\$ 20.00
Establishment (After Hours)	\$ 40.00	*Removed
Reconnection (Delinquent)	\$ 50.00	\$ 50.00
Reconnection (After hours)	\$ 40.00	*Removed
Meter Test	\$ 20.00	\$ 20.00
Minimum Deposit Requirement	PER RULE	PER RULE
Deposit Interest	PER RULE	PER RULE
Re-establishment (Within 12 months)	PER RULE	PER RULE
NSF Check	\$ 20.00	\$ 20.00
Deferred Payment, per month	1.5%	1.5%
Meter Re-read	\$ 10.00	\$ 10.00
Late Charge	1.5%	1.5%
Customer requested Meter Test	\$ 20.00	\$ 20.00
After hours service charge	\$ 40.00	\$ 40.00
Moving Customer Meter (at customer request)	Cost	Cost

(a) \$ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

* After hours service charge will apply when service requested by customer after hours.

REBUTTAL SCHEDULES
WASTEWATER DIVISION

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$	825,856
2			
3	Adjusted Operating Income		(83,387)
4			
5	Current Rate of Return		-10.10%
6			
7	Required Operating Income	\$	90,844
8			
9	Required Rate of Return		11.00%
10			
11	Operating Income Deficiency	\$	174,232
12			
13	Gross Revenue Conversion Factor		1.2021
14			
15	Increase in Gross Revenue		
16	Requirement	\$	209,436
17			
18	Adjusted Test Year Revenues	\$	119,464
19	Increase in Gross Revenue Revenue Requirement	\$	209,436
20	Proposed Revenue Requirement	\$	328,900
21	% Increase		175.31%
22			

Customer		Present	Proposed	Dollar	Percent
Classification		Rates	Rates	Increase	Increase
25	3/4 Inch Residential	\$ 92,479	\$ 287,729	\$ 195,250	211.13%
26	3/4 Inch Commercial	114	740	626	547.81%
27	2 Inch Commercial	23,698	36,829	13,131	55.41%
28				-	0.00%
29	Revenue Annualization	173	741	567	327.23%
30	Subtotal	\$ 116,465	\$ 326,039	\$ 209,574	179.95%
31					
32	Other Water Revenues	3,441	3,441	-	0.00%
33	Reconciling Amount	(442)	(580)	(138)	31.22%
34	Rounding			-	0.00%
35	Total of Water Revenues	\$ 119,464	\$ 328,900	\$ 209,436	175.31%

SUPPORTING SCHEDULES:

39 B-1
40 C-1
41 C-3
42 H-1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 1,397,271	\$ 1,397,271
3	Less: Accumulated Depreciation	<u>455,092</u>	<u>455,092</u>
4			
5	Net Utility Plant in Service	\$ 942,179	\$ 942,179
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	197,973	197,973
11			
12	Accumulated Amortization of CIAC	(86,715)	(86,715)
13			
14	Customer Meter Deposits	5,065	5,065
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Working Capital	-	-
25			
26			
27			
28	Total Rate Base	<u>\$ 825,856</u>	<u>\$ 825,856</u>
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43	<u>SUPPORTING SCHEDULES:</u>		
44	B-2		
45	B-3		
46	B-5		
47	E-1		
48			
49			
50			
51			
52			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 1,397,271	-	\$ 1,397,271
3				
4	Less:			
5	Accumulated			
6	Depreciation	455,064	28	455,092
7				
8				
9	Net Utility Plant			
10	in Service	\$ 942,207		\$ 942,179
11				
12	Less:			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	197,973	-	197,973
18				
19	Accumulated Amortization of CIAC	(86,711)	(4)	(86,715)
20				
21	Customer Meter Deposits	-	5,065	5,065
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	Plus:			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	Total	\$ 830,945		\$ 825,856

45 SUPPORTING SCHEDULES:
46 B-2, pages 2
47 E-1

RECAP SCHEDULES:
B-1

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at end of Test Year	1 Plant-in- Service	2 Accumulated Depredation	Proforma Adjustments			4 Customer Deposits	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
					3					
1	Gross Utility									
2	Plant in Service	\$ 1,397,271	-							\$ 1,397,271
3										
4	Less:									
5	Accumulated									
6	Depredation	455,064		28						455,092
7										
8										
9	Net Utility Plant									
10	in Service	\$ 942,207	\$ -	\$ (28)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 942,179
11										
12	Less:									
13	Advances in Aid of									
14	Construction	-								-
15										
16	Contributbns in Aid of									
17	Construction (CIAC)	197,973								197,973
18										
19	Accumulated Amort of CIAC	(86,711)			(4)					(86,715)
20										
21	Customer Meter Deposits	-					5,065			5,065
22	Accumulated Deferred Income Taxes	-								-
23										
24										
25	Plus:									
26	Unamortized Finance									
27	Charges	-								-
28	Prepayments	-								-
29	Materials and Supplies	-								-
30	Allowance for Cash Working Capital	-								-
31										
32	Total	\$ 830,945	\$ -	\$ (28)	\$ 4	\$ (5,065)	\$ -	\$ -	\$ -	\$ 825,856
33										
34										
35										

SUPPORTING SCHEDULES:

B-2, pages 3-5

E-1

RECAP SCHEDULES:

B-1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line	Plant-in-Service							
No.			A	B	Adjustments	D	E	
1					C			
2			Adjusted	Adjustments				Rebuttal
3			Original	Required to	Intentionally	Intentionally	Intentionally	Adjusted
4	Acct.			Reconcile to	Left	Left	Left	Original
5	No.	Description	Cost	Reconstruction	Blank	Blank	Blank	Cost
6	351	Organization Cost	-	-				-
7	352	Franchise Cost	-	-				-
8	353	Land and Land Rights	105,000	-				105,000
9	354	Structures & Improvements	56,350	-				56,350
10	355	Power Generation Equipment	2,879	-				2,879
11	360	Collection Sewers - Force	-	-				-
12	361	Collection Sewers - Gravity	260,553	-				260,553
13	362	Special Collecting Structures	-	-				-
14	363	Services to Customers	60,375	-				60,375
15	364	Flow Measuring Devices	-	-				-
16	365	Flow Measuring Installations	-	-				-
17	366	Reuse Services	3,450	-				3,450
18	367	Reuse Meters and Meter Installation:	-	-				-
19	370	Receiving Wells	-	-				-
20	371	Pumping Equipment	-	-				-
21	374	Reuse Distribution Reservoirs	-	-				-
22	375	Reuse Transmission and Distribution	-	-				-
23	380	Treatment & Disposal Equipment	903,992	-				903,992
24	381	Plant Sewers	-	-				-
25	382	Outfall Sewer Lines	-	-				-
26	389	Other Plant & Misc Equipment	-	-				-
27	390	Office Furniture & Equipment	4,672	(421)				4,251
28	390.1	Computers & Software	-	421				421
29	391	Transportation Equipment	-	-				-
30	392	Stores Equipment	-	-				-
31	393	Tools, Shop & Garage Equipment	-	-				-
32	394	Laboratory Equipment	-	-				-
33	395	Power Operated Equipment	-	-				-
34	396	Communication Equipment	-	-				-
35	397	Miscellaneous Equipment	-	-				-
36	398	Other Tangible Plant	-	-				-
37	TOTALS		\$ 1,397,271	\$ (0)	\$ -	\$ -	\$ -	\$ 1,397,271
38								
39	Plant-in-Service per Books							\$ 1,397,271
40								
41	Increase (decrease) in Plant-in-Service							\$ -
42								
43	Adjustment to Plant-in-Service							\$ -
44								
45	<u>SUPPORTING SCHEDULES</u>							
46	B-2, pages 3.1							
47								

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line

No.

1 Reconciliation to Reconstructed Plant-in-Service

2

3

4 Acct.

Adjusted
Original

Plant
Per

Adjustment

5 No. Description

Cost

Reconstruction

Required

6	351	Organization Cost	-	-	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	105,000	105,000	-
9	354	Structures & Improvements	56,350	56,350	-
10	355	Power Generation Equipment	2,879	2,879	-
11	360	Collection Sewers - Force	-	-	-
12	361	Collection Sewers - Gravity	260,553	260,553	-
13	362	Special Collecting Structures	-	-	-
14	363	Servcies to Customers	60,375	60,375	-
15	364	Flow Measuring Devices	-	-	-
16	365	Flow Measuring Installations	-	-	-
17	366	Reuse Services	3,450	3,450	-
18	367	Reuse Meters and Meter Installatior	-	-	-
19	370	Receiving Wells	-	-	-
20	371	Pumping Equipment	-	-	-
21	374	Reuse Distribution Reserviors	-	-	-
22	375	Reuse Transmission and Distributio	-	-	-
23	380	Treatment & Disposal Equipment	903,992	903,992	-
24	381	Plant Sewers	-	-	-
25	382	Outfall Sewer Lines	-	-	-
26	389	Other Plant & Misc Equipment	-	-	-
27	390	Office Furniture & Equipment	4,672	4,251	(421)
28	390.1	Computers & Software	-	421	421
29	391	Transportation Equipment	-	-	-
30	392	Stores Equipment	-	-	-
31	393	Tools, Shop & Garage Equipment	-	-	-
32	394	Laboratory Equipment	-	-	-
33	395	Power Operated Equipment	-	-	-
34	396	Communication Equipment	-	-	-
35	397	Miscellaneous Equipment	-	-	-
36	398	Other Tangible Plant	-	-	-
37		TOTALS	\$ 1,397,271	\$ 1,397,271	\$ (0)

38

39

40 SUPPORTING SCHEDULE

41 B-2, pages 3.2 - 3.8

42

NARUC			Allowed Deprec. Rate	Per Decision 70140		2006									
Line	Account			Plant at 12/31/2005	Accum. Deprec. At 12/31/2005	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.	Description													
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	105,000	-	-	-	-	-	-	-	-	-	105,000	-
4	354	Structures & Improvements	3.33%	56,350	2,815	-	-	-	-	-	-	1,876	56,350	4,691	-
5	355	Power Generation	5.00%	2,879	216	-	-	-	-	-	-	144	2,879	360	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%	260,553	7,817	-	-	-	-	-	-	5,211	260,553	13,028	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	60,375	1,811	-	-	-	-	-	-	1,208	60,375	3,019	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	366	Reuse Services	2.00%	3,450	518	-	-	-	-	-	-	69	3,450	587	-
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	890,485	66,786	-	-	-	-	-	-	44,524	890,485	111,311	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		1,379,092	79,962	-	-	-	-	-	-	53,032	1,379,092	132,995	

			2007									
Line	NARUC Account	Allowed Deprec.	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.	Rate	(Per Books)									
1	351	Organization			-	-	-	-	-	-	-	-
2	352	Franchise			0.00%	-	-	-	-	-	-	-
3	353	Land			0.00%	-	-	-	-	-	105,000	-
4	354	Structures & Improvements			3.33%	-	-	-	-	1,876	56,350	6,568
5	355	Power Generation			5.00%	-	-	-	-	144	2,879	504
6	360	Collection Sewer Forced			2.00%	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity			2.00%	-	-	-	-	5,211	260,553	18,239
8	362	Special Collecting Structures			2.00%	-	-	-	-	-	-	-
9	363	Customer Services			2.00%	-	-	-	-	-	-	-
10	364	Flow Measuring Devices			10.00%	-	-	-	-	1,208	60,375	4,226
10	365	Flow Measuring Installations			10.00%	-	-	-	-	-	-	-
10	366	Reuse Services			2.00%	-	-	-	-	69	3,450	656
12	367	Reuse Meters And Installation			8.33%	-	-	-	-	-	-	-
13	370	Receiving Wells			3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment			12.50%	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs			2.50%	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System			2.50%	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment			5.00%	-	-	-	-	44,524	890,485	155,835
18	381	Plant Sewers			5.00%	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines			3.33%	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment			6.67%	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment			6.67%	-	-	-	-	-	-	-
22	390.1	Computers and Software			20.00%	-	-	-	-	-	-	-
23	391	Transportation Equipment			20.00%	-	-	-	-	-	-	-
24	392	Stores Equipment			4.00%	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip			5.00%	-	-	-	-	-	-	-
26	394	Laboratory Equip			10.00%	-	-	-	-	-	-	-
26	395	Power Operated Equipment			5.00%	-	-	-	-	-	-	-
26	396	Communication Equip			10.00%	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment			10.00%	-	-	-	-	-	-	-
26	398	Other Tangible Plant			10.00%	-	-	-	-	-	-	-
29					-	-	-	-	-	-	-	-
30					-	-	-	-	-	-	-	-
31					-	-	-	-	-	-	-	-
32					-	-	-	-	-	-	-	-
33					-	-	-	-	-	-	-	-
34					-	-	-	-	-	-	-	-
35					-	-	-	-	-	-	-	-
36	TOTALS				-	-	-	-	-	53,032	1,379,092	186,027

NARUC			Allowed Deprec. Rate	2008									
Line	Account	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.			(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	AD Only	(Calculated)	Balance	Deprec.
1	351	Organization			0.00%	-	-	-	-	-	-	-	-
2	352	Franchise			0.00%	-	-	-	-	-	-	-	-
3	353	Land			0.00%	-	-	-	-	-	-	105,000	-
4	354	Structures & Improvements			3.33%	-	-	-	-	1,876	56,350	8,444	-
5	355	Power Generation			5.00%	-	-	-	-	144	2,879	648	-
6	360	Collection Sewer Forced			2.00%	-	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity			2.00%	-	-	-	-	5,211	260,553	23,450	-
8	362	Special Collecting Structures			2.00%	-	-	-	-	-	-	-	-
9	363	Customer Services			2.00%	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices			10.00%	-	-	-	-	1,208	60,375	5,434	-
10	365	Flow Measuring Installations			10.00%	-	-	-	-	-	-	-	-
10	366	Reuse Services			2.00%	-	-	-	-	69	3,450	725	-
12	367	Reuse Meters And Installation			8.33%	-	-	-	-	-	-	-	-
13	370	Receiving Wells			3.33%	-	-	-	-	-	-	-	-
14	371	Pumping Equipment			12.50%	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs			2.50%	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System			2.50%	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment		13,507	5.00%	13,507	-	-	-	44,862	903,992	200,897	-
18	381	Plant Sewers			5.00%	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines			3.33%	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment			6.67%	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment		2,552	6.67%	2,552	-	-	-	85	2,552	85	-
22	390.1	Computers and Software			20.00%	-	-	-	-	-	-	-	-
23	391	Transportation Equipment			20.00%	-	-	-	-	-	-	-	-
24	392	Stores Equipment			4.00%	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip			5.00%	-	-	-	-	-	-	-	-
26	394	Laboratory Equip			10.00%	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment			5.00%	-	-	-	-	-	-	-	-
26	396	Communication Equip			10.00%	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment			10.00%	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant			10.00%	-	-	-	-	-	-	-	-
29						-	-	-	-	-	-	-	-
30						-	-	-	-	-	-	-	-
31						-	-	-	-	-	-	-	-
32						-	-	-	-	-	-	-	-
33						-	-	-	-	-	-	-	-
34						-	-	-	-	-	-	-	-
35						-	-	-	-	-	-	-	-
36	TOTALS				16,059	-	16,059	-	-	-	53,455	1,395,151	239,482

NARUC			Allowed Deprec. Rate	2009									
Line	Account	Description		Plant Additions (Per Books)	Plant Adjustments ¹	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.												
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-	-	-	105,000	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-	-	1,876	56,350	10,321	-
5	355	Power Generation	5.00%	-	-	-	-	-	-	144	2,879	792	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-	-	-	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	5,211	260,553	28,661	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	1,208	60,375	6,641	-
10	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-	-	-
10	366	Reuse Services	2.00%	-	-	-	-	-	-	69	3,450	794	-
12	367	Reuse Meters And Installabon	8.33%	-	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-	45,200	903,992	245,896	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	170	2,552	255	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-
36		TOTALS		-	-	-	-	-	-	-	53,878	1,395,151	293,360

NARUC			Allowed Deprec. Rate	2010									
Line	Account	Description		Plant Additions	Plant	Adjusted Plant	Plant Retirements	Retirement	Adjusted Plant	Salvage	Depreciation	Plant	Accum.
No.	No.			(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-	-	-	105,000	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-	-	1,876	56,350	12,197	-
5	355	Power Generation	5.00%	-	-	-	-	-	-	144	2,879	936	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-	-	-	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	5,211	260,553	33,872	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	1,208	60,375	7,849	-
10	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-	-	-
10	366	Reuse Services	2.00%	-	-	-	-	-	-	69	3,450	863	-
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-	45,200	903,962	291,096	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	170	2,552	426	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-
36	TOTALS			-	-	-	-	-	-	-	53,878	1,396,151	347,237

NARUC			Allowed Deprec. Rate	2011									
Line	Account	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.			(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	Salvage	Depreciation	Plant	Accum.
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-	-	-	105,000	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-	-	1,876	56,350	14,073	-
5	355	Power Generation	5.00%	-	-	-	-	-	-	144	2,879	1,080	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	5,211	260,553	39,083	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	1,208	60,375	9,056	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-	-
10	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-	-	-
10	366	Reuse Services	2.00%	-	-	-	-	-	-	69	3,450	932	-
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-	45,200	903,992	336,296	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	170	2,552	596
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-
36		TOTALS		-	-	-	-	-	-	-	53,878	1,395,151	401,115

				2012									
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant	Adjusted Plant	Plant Retirements	Retirement	Adjusted Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	351	Organization	0.00%			-			-	-	-	-	-
2	352	Franchise	0.00%			-			-	-	-	-	-
3	353	Land	0.00%			-			-	-	-	105,000	-
4	354	Structures & Improvements	3.33%			-			-	1,876	56,350	15,950	15,950
5	355	Power Generation	5.00%			-			-	144	2,879	1,224	1,224
6	360	Collection Sewer Forced	2.00%			-			-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%			-			-	5,211	260,553	44,294	44,294
8	362	Special Collecting Structures	2.00%			-			-	-	-	-	-
9	363	Customer Services	2.00%			-			-	1,208	60,375	10,264	10,264
10	364	Flow Measuring Devices	10.00%			-			-	-	-	-	-
10	365	Flow Measuring Installations	10.00%			-			-	-	-	-	-
10	366	Reuse Services	2.00%			-			-	69	3,450	1,001	1,001
12	367	Reuse Meters And Installation	8.33%			-			-	-	-	-	-
13	370	Receiving Wells	3.33%			-			-	-	-	-	-
14	371	Pumping Equipment	12.50%			-			-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%			-			-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%			-			-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%			-			-	45,200	903,992	381,495	381,495
18	381	Plant Sewers	5.00%			-			-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%			-			-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%			-			-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	1,698		1,698			-	227	4,251	823	823
22	390.1	Computers and Software	20.00%	421		421			-	42	421	42	42
23	391	Transportation Equipment	20.00%			-			-	-	-	-	-
24	392	Stores Equipment	4.00%			-			-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%			-			-	-	-	-	-
26	394	Laboratory Equip	10.00%			-			-	-	-	-	-
26	395	Power Operated Equipment	5.00%			-			-	-	-	-	-
26	396	Communication Equip	10.00%			-			-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%			-			-	-	-	-	-
26	398	Other Tangible Plant	10.00%			-			-	-	-	-	-
29						-			-	-	-	-	-
30						-			-	-	-	-	-
31						-			-	-	-	-	-
32						-			-	-	-	-	-
33						-			-	-	-	-	-
34						-			-	-	-	-	-
35						-			-	-	-	-	-
36	TOTALS			2,119	-	2,119	-	-	-	-	53,977	1,397,271	455,092

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 -A

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line

<u>No.</u>			Adjusted Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Adjustment Required
1	<u>Reconciliation to Reconstructed Accumulated Depreciation</u>				
2					
3					
4	Acct.				
5	<u>No.</u>	<u>Description</u>			
6	351	Organization Cost	-	-	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	-	-	-
9	354	Structures & Improvements	15,950	15,950	-
10	355	Power Generation Equipment	1,224	1,224	-
11	360	Collection Sewers - Force	-	-	-
12	361	Collection Sewers - Gravity	44,294	44,294	-
13	362	Special Collecting Structures	10,264	10,264	-
14	363	Servcies to Customers	-	-	-
15	364	Flow Measuring Devices	1,001	1,001	-
16	365	Flow Measuring Installations	-	-	-
17	366	Reuse Services	-	-	-
18	367	Reuse Meters and Meter Installator	-	-	-
19	370	Receiving Wells	-	-	-
20	371	Pumping Equipment	381,495	381,495	-
21	374	Reuse Distribution Reserviors	-	-	-
22	375	Reuse Transmission and Distributio	-	-	-
23	380	Treatment & Disposal Equipment	837	823	(14)
24	381	Plant Sewers	-	42	42
25	382	Outfall Sewer Lines	-	-	-
26	389	Other Plant & Misc Equipment	-	-	-
27	390	Office Furniture & Equipment	-	-	-
28	390.1	Computers & Software	-	-	-
29	391	Transportation Equipment	-	-	-
30	392	Stores Equipment	-	-	-
31	393	Tools, Shop & Garage Equipment	-	-	-
32	394	Laboratory Equipment	-	-	-
33	395	Power Operated Equipment	-	-	-
34	396	Communication Equipment	-	-	-
35	397	Miscellaneous Equipment	-	-	-
36	398	Other Tangible Plant	-	-	-
37		TOTALS	#REF!	\$ 455,092	\$ 28

38
39
40 SUPPORTING SCHEDULE
41 B-2, pages 3.2 - 3.8
42

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.0
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line

No.

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	Gross CIAC	Accumulated Amortization
Computed balance at end of test year	\$ 197,973	\$ 86,715
Adjusted balance at end of test year	\$ 197,973	\$ 86,711
Increase (decrease)	\$ -	\$ 4
Adjustment to CIAC/AA CIAC	\$ -	\$ (4)
Label	3a	3b

SUPPORTING SCHEDULES

E-1

B-2, page 5.1

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Contributions-in-aid of Construction (CIAC)

Exhibit
 Rebuttal Schedule B-2
 Page 5.1
 Witness: Bourassa

Line
 No.

	2006		2007		2008		2009	
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
		Additions	Additions	Additions	Additions	Additions	Additions	Additions
5 CIAC	197,973	197,973	197,973	197,973	197,973	197,973	197,973	197,973
7 Amortization Decision No. 70140	12,425							
8 Amortization Rate		4.16%	4.16%	4.14%	4.18%			
9 Amortization (1/2 yr convention)		8,240	8,240	8,203	8,268			
10 Accumulated Amortization		20,665	28,905	37,108	45,376			
12 Net CIAC	185,548	-	177,308	-	169,067	-	160,665	-
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

	2010		2011		2012	
	Balance	Balance	Balance	Balance	Balance	Balance
	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
		Additions	Additions	Additions	Additions	Additions
20 CIAC	-	197,973	-	197,973	-	197,973
24 Amortization Rate		4.18%	4.18%	4.18%		
25 Amortization (1/2 yr convention)		8,268	8,268	8,269		
26 Accumulated Amortization		70,178	78,446	86,715		
28 Net CIAC	-	127,795	-	119,527	-	111,258
29						
30						

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Customer Deposits

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line
No.

1		
2		
3		
4	Staff recommended balance	\$ 5,065
5		
6	Book balance at end of test year	\$ -
7		
8	Increase (decrease)	\$ 5,065
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19	<u>SUPPORTING SCHEDULES</u>	
20	Testimony	
21		
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line

No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	16,175
3	Pumping Power (1/24 of Pumping Power)		1,092
4	Purchased Water (1/24 of Purchased Water)		527
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	\$	17,795
10			
11			
12	Working Capital Requested	\$	-
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	202,851
19	Less:		
20	Income Tax	\$	(15,616)
21	Property Tax		4,401
22	Depreciation		45,791
23	Purchased Water		12,659
24	Pumping Power		26,213
25	Allowable Expenses	\$	129,403
26	1/8 of allowable expenses	\$	16,175
27			
28			

SUPPORTING SCHEDULES:

E-1

RECAP SCHEDULES:

B-1

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Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Flat Rate Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
3	Unmetered Water Revenues	116,023	-	116,023	209,436	325,458
4	Other Water Revenues	5,261	(1,820)	3,441		3,441
5		<u>\$ 121,284</u>	<u>\$ (1,820)</u>	<u>\$ 119,464</u>	<u>\$ 209,436</u>	<u>\$ 328,900</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -		\$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	26,213	-	26,213		26,213
10	Sludge Removal	12,659	-	12,659		12,659
11	Chemicals	5,400	-	5,400		5,400
12	Materials and Supplies	7,187	-	7,187		7,187
13	Office Supplies and Expense	2,446	-	2,446		2,446
14	Contractual Services - Accounting	20,135	-	20,135		20,135
15	Contractual Services - Professional	1,920	-	1,920		1,920
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	46,650	-	46,650		46,650
18	Water Testing	5,669	8,858	14,527		14,527
19	Rents	-	-	-		-
20	Transportation Expenses	3,250	(1,750)	1,500		1,500
21	Insurance - General Liability	2,186	-	2,186		2,186
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	-	-	-		-
24	Reg. Comm. Exp. - Rate Case	10,000	6,667	16,667		16,667
25	Miscellaneous Expense	13,152	(2,366)	10,786		10,786
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	45,744	48	45,791		45,791
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	4,476	(75)	4,401	2,576	6,977
30	Income Tax	(13,545)	(2,071)	(15,616)	32,628	17,012
31			-	-		-
32	Total Operating Expenses	<u>\$ 193,541</u>	<u>\$ 9,310</u>	<u>\$ 202,851</u>	<u>\$ 35,204</u>	<u>\$ 238,056</u>
33	Operating Income	<u>\$ (72,257)</u>	<u>\$ (11,130)</u>	<u>\$ (83,387)</u>	<u>\$ 174,232</u>	<u>\$ 90,844</u>
34	Other Income (Expense)					
35	Interest Income	-	-	-		-
36	Other income	-	-	-		-
37	Interest Expense	-	-	-		-
38	Other Expense	-	-	-		-
39		-	-	-		-
40	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
41	Net Profit (Loss)	<u><u>\$ (72,257)</u></u>	<u><u>\$ (11,130)</u></u>	<u><u>\$ (83,387)</u></u>	<u><u>\$ 174,232</u></u>	<u><u>\$ 90,844</u></u>

42
43 SUPPORTING SCHEDULES:
44 C-1, page 2
45 E-2
46

RECAP SCHEDULES:
A-1

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.1
Witness: Bourassa

Line No.	LABEL>>>>	1	2	3	4	5	6	7
	Test Year Adjusted Results	Depreciation	Property Taxes	Rate Case Expense	Revenue Adjustment	Water Testing	Auto Expense	Telephone Expense
1	Revenues							
2	Flat Rate Revenues	\$ -						
3	Measured Revenues	116,023						
4	Other Water Revenues	5,261			(1,820)			
5		\$ 121,284	\$ -	\$ -	\$ -	\$ (1,820)	\$ -	\$ -
6	Operating Expenses							
7	Salaries and Wages	\$ -						
8	Purchased Water	-						
9	Purchased Power	26,213						
10	Sludge Removal	12,659						
11	Chemicals	5,400						
12	Materials and Supplies	7,187						
13	Office Supplies and Expense	2,446						
14	Contractual Services - Accounting	20,135						
15	Contractual Services - Professional	1,920						
16	Contractual Services - Maintenance	-						
17	Contractual Services - Other	46,650						
18	Water Testing	5,669				8,858		
19	Rents	-					(1,750)	
20	Transportation Expenses	3,250						
21	Insurance - General Liability	2,186						
22	Insurance - Health and Life	-						
23	Reg. Comm. Exp. - Other	-						
24	Reg. Comm. Exp. - Rate Case	10,000		6,667				
25	Miscellaneous Expense	13,152						(2,366)
26	Bad Debt Expense	-						
27	Deprec. and Amort. Exp.	45,744	48					
28	Taxes Other Than Income	-						
29	Property Taxes	4,476	(75)					
30	Income Tax	(13,545)						
31								
32	Total Operating Expenses	\$ 193,541	\$ 48	\$ (75)	\$ 6,667	\$ -	\$ 8,858	\$ (1,750)
33	Operating Income	\$ (72,257)	\$ (48)	\$ 75	\$ (6,667)	\$ (1,820)	\$ (8,858)	\$ 1,750
34	Other Income (Expense)							
35	Interest Income	-						
36	Other Income	-						
37	Interest Expense	-						
38	Other Expense	-						
39								
40	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
41	Net Profit (Loss)	\$ (72,257)	\$ (48)	\$ 75	\$ (6,667)	\$ (1,820)	\$ (8,858)	\$ 1,750
42								
43	SUPPORTING SCHEDULES:							
44	C-2							
45	E-2							

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.2
Witness: Bourassa

Line No.	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Income Taxes	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1							
2							
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45							

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						
1	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>Subtotal</u>
2	Depreciation	Property	Rate Case	Revenue	Water	Auto	
3	<u>Expense</u>	<u>Taxes</u>	<u>Expense</u>	<u>Adjustment</u>	<u>Testing</u>	<u>Expense</u>	
4	Revenues	-	-	(1,820)	-	-	(1,820)
5							
6	Expenses	48	(75)	-	8,858	(1,750)	13,747
7							
8	Operating						
9	Income	(48)	75	(1,820)	(8,858)	1,750	(15,567)
10							
11	Interest						
12	Expense					-	-
13	Other						
14	Income /						-
15	Expense						
16							
17	Net Income	(48)	75	(1,820)	(8,858)	1,750	(15,567)
18							
19							
20	<u>Adjustments to Revenues and Expenses</u>						
21	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>		<u>Subtotal</u>
22	Telephone	Intentionally	Intentionally	Intentionally	Income		
23	<u>Expense</u>	<u>Left</u>	<u>Left</u>	<u>Left</u>	<u>Taxes</u>		
24		<u>Blank</u>	<u>Blank</u>	<u>Blank</u>			
25	Revenues	-	-	-	-		(1,820)
26							
27	Expenses	(2,366)	-	-	(2,071)	-	9,310
28							
29	Operating						
30	Income	2,366	-	-	2,071	-	(11,130)
31							
32	Interest						
33	Expense						-
34	Other						
35	Income /						-
36	Expense						
37							
38	Net Income	2,366	-	-	2,071	-	(11,130)
39							
40							

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct.	Description	Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	351	Organization Cost	-	-	-	0.00%	-
6	352	Franchise Cost	-	-	-	0.00%	-
7	353	Land and Land Rights	105,000	(105,000)	-	0.00%	-
8	354	Structures & Improvements	56,350		56,350	3.33%	1,876
9	355	Power Generation Equipment	2,879		2,879	5.00%	144
10	360	Collection Sewers - Force	-		-	2.00%	-
11	361	Collection Sewers - Gravity	260,553		260,553	2.00%	5,211
12	362	Special Collecting Structures	-		-	2.00%	-
13	363	Servcies to Customers	60,375		60,375	2.00%	1,208
14	364	Flow Measuring Devices	-		-	10.00%	-
15	365	Flow Measuring Installations	-		-	10.00%	-
16	366	Reuse Services	3,450		3,450	2.00%	69
17	367	Reuse Meters and Meter Installations	-		-	8.33%	-
18	370	Receiving Wells	-		-	3.57%	-
19	371	Pumping Equipment	-		-	10.00%	-
20	374	Reuse Distribution Reservoirs	-		-	2.50%	-
21	375	Reuse Transmission and Distribution	-		-	2.00%	-
22	380	Treatment & Disposal Equipment	903,992		903,992	5.00%	45,200
23	381	Plant Sewers	-		-	5.00%	-
24	382	Outfall Sewer Lines	-		-	3.33%	-
25	389	Other Plant & Misc Equipment	-		-	6.67%	-
26	390	Office Furniture & Equipment	4,251		4,251	6.67%	284
27	390.1	Computers & Software	421		421	20.00%	84
28	391	Transportation Equipment	-		-	20.00%	-
29	392	Stores Equipment	-		-	4.00%	-
30	393	Tools, Shop & Garage Equipment	-		-	10.00%	-
31	394	Laboratory Equipment	-		-	10.00%	-
32	395	Power Operated Equipment	-		-	5.00%	-
33	396	Communication Equipment	-		-	10.00%	-
34	397	Miscellaneous Equipment	-		-	10.00%	-
35	398	Other Tangible Plant	-		-	10.00%	-
36							
37							
38							
39		TOTALS	\$ 1,397,271	\$ (105,000)	\$ 1,292,271	10.00%	\$ 54,075
40							
41							
42		Less: Amortization of Contributions			Gross CIAC \$ 197,973	Amort. Rate 4.1845%	\$ (8,284)
43		Total Depreciation Expense					\$ 45,791
44							
45		Adjusted Test Year Depreciation Expense					45,744
46							
47		Increase (decrease) in Depreciation Expense					48
48							
49		Adjustment to Revenues and/or Expenses					\$ 48
50							
51		<u>SUPPORTING SCHEDULE</u>					
52		B-2, page 3					

*Fully Depreciated

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 119,464	\$ 119,464
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	238,928	238,928
4	Company Recommended Revenue	119,464	328,900
5	Subtotal (Line 4 + Line 5)	358,391	567,827
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	119,464	189,276
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	238,928	378,551
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	421	421
12	Full Cash Value (Line 9 + Line 10 - Line 11)	238,507	378,130
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	47,701	75,626
15	Composite Property Tax Rate - Obtained from ADOR	9.2262%	9.2262%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 4,401	\$ 6,977
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 4,401	
19	Adjusted Test Year Property Taxes	\$ 4,476	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (75)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 6,977
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 4,401
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 2,576
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 2,576
27	Increase in Revenue Requirement		\$ 209,436
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.23016%
29			
30			
31			
32			
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line
No.

1		
2		
3	Estimated Rate Case Expense	\$ 50,000
4		
5	Estimated Amortization Period in Years	3
6		
7	Annual Rate Case Expense	<u>\$ 16,667</u>
8		
9	Adjusted Test Year Rate Case Expense	\$ 10,000
10		
11	Increase(decrease) Rate Case Expense	<u>\$ 6,667</u>
12		
13	Adjustment to Revenue and/or Expense	<u>\$ 6,667</u>
14		
15		
16	<u>Reference</u>	
17	Testimony	
18		
19		
20		

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
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Witness: Bourassa

Revenue Adjustment

Line
No.

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Revenue Adjustment

\$ (1,820)

Total Revenue from Annualization

\$ (1,820)

Adjustment to Revenue and/or Expense

\$ (1,820)

Reference

Staff Adjustment # 1

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Water Testing

Line
No.

1		
2	Staff Recommended Water Testing Expense	\$ 14,527
3		
4	Adjuste Test Year Water Testing Expense	\$ 5,669
5		
6	Adjustment to purchased power expense (rounded)	<u>\$ 8,858</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>8,858</u>
10		
11	<u>Reference</u>	
12	Staff Adjustment #3	
13		
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Auto Expense

Line
No.

1		
2		
3	Test Year Auto Expense	\$ 1,500
4		
5	Staff Recommended Auto Expense	3,250
6		
7	Adjustment to Revenues	<u>\$ (1,750)</u>
8		
9		
10	Adjustment to Revenue and/or Expense	<u>(1,750)</u>
11		
12	<u>Reference</u>	
13	Staff Adjustment #3	
14		
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Telephone Expense

Line
No.

1		
2	Staff Recommended Telephone Expense	\$ 2,366
3		
4	Adjusted Test Year Telephone Expense	4,732
5		
6	Adjustment to Revenues	<u>\$ (2,366)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>\$ (2,366)</u>
10		
11	<u>Reference</u>	
12	Staff Adjustment #4	
13		
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
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Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Line

No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

8

9

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11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

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	Test Year
	<u>at Present Rates</u>
\$	(15,616)
	(13,545)
\$	<u>(2,071)</u>

	Test Year
	<u>at Proposed Rates</u>
\$	17,012
	(15,616)
\$	<u>32,628</u>

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rebuttal Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	15.773%
2		
3	Property Taxes	1.036%
4		
5		
6	Total Tax Percentage	16.809%
7		
8	Operating Income % = 100% - Tax Percentage	83.191%
9		
10		
11		
12		
13	$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	
14		1.2021
15		
16		
17		
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25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
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Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	16.8091%					
5	Subtotal (L3 - L4)	83.1909%					
6	Revenue Conversion Factor (L1 / L5)	1.202055					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	15.7730%					
9	One Minus Combined Income Tax Rate (L7 - L8)	84.2270%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	2.8074%					
14	Federal Taxable Income (L12 - L13)	97.1926%					
15	Applicable Federal Income Tax Rate (L55 Col F)	13.3401%					
16	Effective Federal Income Tax Rate (L14 x L15)	12.9656%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		15.7730%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	15.7730%					
20	One Minus Combined Income Tax Rate (L18-L19)	84.2270%					
21	Property Tax Factor	1.2302%					
22	Effective Property Tax Factor (L20*L21)		1.0361%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			16.8091%			
24	Required Operating Income	\$ 90,844					
25	Adjusted Test Year Operating Income (Loss)	\$ (83,387)					
26	Required Increase in Operating Income (L24 - L25)		\$ 174,232				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 17,012					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (15,616)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 32,628				
30	Recommended Revenue Requirement	\$ 328,900					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 6,977					
36	Property Tax on Test Year Revenue	\$ 4,401					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 2,576				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 209,436				

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 119,464	\$ 119,464	\$ 328,900	\$ 328,900	
40	Operating Expenses Excluding Income Taxes	218,467	218,467	221,043	221,043	
41	Synchronized Interest (L47)	-	-	-	-	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (99,003)	\$ (99,003)	\$ 107,856	\$ 107,856	
43	Arizona State Effective Income Tax Rate (see work papers)	2.8074%	2.8074%	2.8074%	2.8074%	
44	Arizona Income Tax (L42 x L43)	\$ (2,779)	\$ (2,779)	\$ 3,028	\$ 3,028	
45	Federal Taxable Income (L42- L44)	\$ (96,224)	\$ (96,224)	\$ 104,828	\$ 104,828	
46	Federal Tax Rate	13.3401%	13.3401%	13.3401%	13.3401%	
47	Federal Tax	\$ (12,836)	\$ (12,836.35)	\$ 13,984	\$ 13,984	
48						
49						
50						
51						
52						
53	Total Federal Income Tax	\$ (12,836)	\$ (12,836)	\$ 13,984	\$ 13,984	
54	Combined Federal and State Income Tax (L35 + L32)	\$ (15,616)	\$ (15,616)	\$ 17,012	\$ 17,012	
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45]			13.3401%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]					
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]					13.3401%

Calculation of Interest Synchronization:
58 Rate Base
59 Weighted Average Cost of Debt
60 Synchronized Interest (L59 X L60)

	Water	Wastewater
\$	1,575,194	\$ 825,856
	0.0000%	0.0000%
\$	-	\$ -

Utility Source, LLC - Wastewater Division
Revenue Summary
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	\$ 92,479	\$ 287,729	\$ 195,250	211.13%	77.41%	87.48%
2	3/4 Inch	Commercial	114	740	626	547.81%	0.10%	0.22%
3	2 Inch	Commercial	23,698	36,829	13,131	55.41%	19.84%	11.20%
4								
5								
6								
7								
8								
9	Subtotals of Revenues		\$ 116,291	\$ 325,298	\$ 209,007	179.73%	97.34%	98.90%
10	Revenue Annualizations:							
11	3/4 Inch	Residential	\$ 173	\$ 741	\$ 567	327.23%	0.15%	0.23%
12								
13								
14								
15								
16	Subtotal Revenue Annualization		173	741	567	327.23%	0.15%	0.62%
17								
18	Total Revenues w/ Annualization		\$ 116,465	\$ 326,039	\$ 209,574	179.95%	97.49%	99.13%
19	Misc Revenues, as adjusted		3,441	3,441	-	0.00%	2.88%	1.05%
20	Reconciling Amount		(442)	(580)	(138)	31.22%	-0.37%	-0.18%
21	Total Revenues		\$ 119,464	\$ 328,900	\$ 209,436	175.31%	100.00%	100.00%
22								
23								

Utility Source, LLC - Wastewater Division
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

Exhibit
 Rebuttal Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill		Proposed Increase		Percent of Customers
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	3/4 Inch Residential	320	4,123	\$ 24.08	\$ 74.91	\$ 50.83	211.13%	98.77%
2	3/4 Inch Commercial	1	1,667	9.52	61.66	52.14	547.81%	0.31%
3	2 Inch Commercial	3	115,286	658.29	1,023.04	364.75	55.41%	0.93%
4								
5								
6								
7								
8								
9								
10								
11								
12	Totals	<u>324</u>						<u>100.00%</u>
13								
14	Actual Year End Number							
15	of Customers:	<u>325</u>						
16								
17								
18								
19								

Utility Source, LLC - Wastewater Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial)	Present Rates	Proposed Rates
1	Monthly Usage Charge for:		
2	5/8 x 3/4 Inch	\$ -	\$ 53.00
3	3/4 Inch	-	53.00
4	1 Inch	-	132.50
5	1 1/2 Inch	-	265.00
6	2 Inch	-	424.00
7	3 Inch	-	848.00
8	4 Inch	-	1,325.00
9	6 Inch	-	2,650.00
10			
11	Gallons In Minimum		
12	All Meter Sizes	-	-
13			
14	Rate per 1,000 Gallons of Water Usage		
15	Residential	\$ 5.84	\$ 5.31
16	Commercial and Industrial		
17	Car washes, laundromats, Commercial, Manufacturing	5.71	5.20
18	Hotels, Motels	7.66	6.97
19	Restaurants	9.46	8.61
20	Industrial Laundries	8.39	7.63
21	Waste haulers	171.20	155.79
22	Restuarant Grease	149.80	136.32
23	Treatment Plant Sludge	171.20	155.79
24	Mud Sump Waste	535.00	486.85
25			
26			
27			
28			
29			
30			

Utility Source, LLC - Wastewater Division
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line
No.

1
2 Other Charges:

3		
4		
5	Establishment	\$ 20.00
6	Establishment (After Hours)	\$ 40.00
7	Reconnection (Delinquent)	\$ 50.00
8	Reconnection (Delinquent and After hours)	\$ 40.00
9	Minimum Deposit Requirement	PER RULE
10	Deposit Interest	PER RULE
11	Re-establishment (Within 12 months)	PER RULE
12	NSF Check	\$ 20.00
13	Deferred Payment, per month	PER RULE
14	Late Charge	PER RULE
15	After hours service charge	\$ 40.00
16		
17		
18		
19		
20		

\$ 20.00
*Removed
\$ 50.00
*Removed
PER RULE
PER RULE
PER RULE
PER RULE
\$ 20.00
PER RULE
PER RULE
\$ 40.00

21
22
23
24 * After hours service charge will apply when service requested by customer after hours.

ATTACHMENT 2

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

DOCKET NO: SW-03437A-13-0331

IN THE MATTER OF THE
APPLICATION OF UTILITY SOURCE,
LLC, AN ARIZONA CORPORATION,
FOR A DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
ITS WATER AND WASTEWATER
RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

**REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
(COST OF CAPITAL)**

October 3, 2014

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of Applicant Utility Source, LLC ("USLLC" or the "Company").

7 **Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON RATE BASE**
8 **ISSUES IN THIS DOCKET?**

9 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement
10 and rate design is being filed in a separate volume at the same time as this
11 testimony. In this volume, I present my cost of capital rebuttal testimony. Also
12 attached are two exhibits, which are discussed below.

13 **II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL**
14 **FOR THE COMPANY**

15 **Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REBUTTAL**
16 **TESTIMONY?**

17 A. I will provide rebuttal responses as appropriate to the direct testimony of Staff
18 witness Mr. John Cassidy and RUCO witness Mr. Robert Mease. This portion of
19 my rebuttal testimony focuses on cost of capital issues. I will testify in support of
20 USLLC's proposed return on equity and rate of return on its fair value rate base
21 ("FVRB"). I am sponsoring the Company's D Schedules, which are attached to
22 this testimony. There are 22 schedules that support my cost of capital testimony.
23 As noted above, I am also sponsoring rebuttal testimony that addresses the
24 Company's rate base, income statement (revenue and operating expenses), required
25 increase in revenue, and its rate design and proposed rates and charges for service.
26

1 For convenience, that testimony and my related schedules are contained in separate
2 volumes.

3 **Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?**

4 A. Yes. The range of my rebuttal DCF, CAPM, and Build-up Method analyses is 9.0
5 percent to 11.6 percent with a mid-point of 10.3 percent compared to my direct
6 DCF, CAPM, and Build-up Method analyses is 8.5 percent to 11.7 percent with a
7 mid-point of 10.1 percent. My opinion that a return on equity of 11.0 percent for
8 USLLC given its size and greater risk compared to the public traded water utilities
9 has not changed.

10 **Q. HAVE YOU CHANGED ANY OF YOUR METHODS AND INPUTS?**

11 A. I continue to use the three methods I used in my direct testimony; the DCF, CAPM,
12 and the Build-up Method. My inputs have been updated to use more current data.
13 I also changed the methodology for computing the current market risk premium
14 ("MRP") for the current MRP CAPM. Instead of using the median 3-5 year
15 projected price appreciation for the Value Line 1700 stocks in the estimation of the
16 current MRP, I used the median 3-5 year projected earnings per share growth
17 ("EPS") growth and median 3-5 year projected dividend per share growth ("DPS")
18 growth. Using these inputs is consistent with the methodology recommended by
19 Dr. Morin for computing the current MRP.¹ Using EPS and DPS inputs is more
20 consistent with the DCF method used to estimate the current MRP. Just as
21 important, I have found that using EPS growth and DPS growth inputs in the MRP
22 estimation approach is less volatile than using the 3-5 year price appreciation
23 which I noted in my direct was a concern of its use.²

24
25 ¹ Roger A. Morin, *New Regulatory Finance* (Public Utility Reports 2006), ("Morin") pp. 165-166.

26 ² See Direct Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 39.

1 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL**
2 **RESOMMENDATIONS.**

3 A. As noted above, I recommend a return on equity of 11.0 percent which is above the
4 mid-point of the range of my DCF, CAPM, and Build-up Method analyses of 10.2
5 percent but well below the top end of the range of 11.5 percent.³ I also recommend
6 a capital structure consisting of 0 percent debt and 100 percent equity. Based on
7 these recommendations with weighted average cost of capital ("WACC") is 11.0
8 percent. Therefore, I recommend an 11.0 percent return be applied to USLLC's
9 fair value rate base ("FVRB").
10

11 **III. SUMMARY OF THE STAFF AND RUCO RECOMMENDATIONS**

12 **Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF**
13 **STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE**
14 **RATE BASE.**

15 A. Staff is recommending a capital structure consisting of 0 percent debt and
16 100 percent equity.⁴ Staff determined a cost of equity of 9.6 percent based on the
17 average cost of equity produced by its DCF and CAPM models, a financial risk
18 adjustment and an economic assessment adjustment (EAA).⁵ Staff used a sample
19 of seven publicly traded water utilities; six of which are the same as those I used in
20 my analysis.⁶ Staff did not consider firm size or firm-specific risks in its analysis.
21
22
23

24 ³ See USLLC Direct Scehdule D-4.1.

25 ⁴ Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 27.

26 ⁵ Id. at 28.

⁶ Staff has added York Water (YORW) to its proxy group.

Based on its capital structure recommendation, Staff determined the WACC for USLLC to be 9.6 percent.⁷

RUCO is recommending a capital structure consisting of 0 percent debt and 100 percent equity.⁸ RUCO determined a cost of equity of 9.25 percent based on the average cost of equity produced by its DCF and CAPM models as well as a Comparable Earnings analysis.⁹ RUCO used a sample of seven publicly traded water utilities; six of which are the same as those I used in my analysis.¹⁰ RUCO did not consider firm size or firm-specific risks in its analysis. Based on its capital structure recommendation, RUCO determined the WACC for USLLC to be 9.25 percent.¹¹

Q. PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY ESTIMATES AND RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING.

A. The respective parties' cost of equity recommendations are summarized below:

<u>Party</u>	<u>DCF</u>	<u>CAPM</u>	<u>Build- Up/CE</u>	<u>Average</u>	<u>Financial</u>		<u>Recommended</u>
					<u>Risk/EAA</u>	<u>Adjusted</u>	
USLLC	9.6%	9.7%	11.5%	10.3%	N/A	10.3%	11.0%
Staff	9.0%	N/A	N/A	9.0%	0.6%	9.6%	9.6%
RUCO	8.86	7.24	9.8	8.63	N/A	8.63	9.25%

⁷ Cassidy Dt. at 28.

⁸ Direct Testimony of Robert B. Mease ("Mease Dt.") at 4.

⁹ *Id.* at 3.

¹⁰ Staff has added York Water (YORW) to its proxy group.

¹¹ Cassidy Dt. at 47.

1
2
3 **Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO**
4 **OTHER FORECASTS OF COMMON EQUITY RETURNS AND**
5 **CURRENTLY AUTHORIZED RETURNS?**

6 A. They are much lower. *Value Line*, a reputable publication used by the Company
7 and Staff cost of capital witnesses in the instant case, publishes forecasts of returns
8 on common equity for larger publicly traded companies. Six water utilities are
9 included in my sample group while Staff and RUCO include seven. *Value Line*
10 (July 18, 2014) shows actual and projected returns on equity for those water
11 utilities:

12

<u>Company</u>	<u>Actual</u>			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2017-19</u>
American States Water (AWR)	12.7%	12.5%	12.0%	12.5%
Aqua America (WTR)	13.4%	13.5%	14.5%	14.0%
California Water (CWT)	7.9%	8.0%	9.0%	10.0%
Connecticut Water (CTWS)	9.2%	10.0%	9.0%	8.5%
Middlesex Water (MSEX)	8.7%	8.5%	8.5%	9.0%
SJW Corp. (SJW)	7.3%	7.5%	8.0%	8.0%
York Water. (YORW)	<u>9.3%</u>	<u>11.5%</u>	<u>12.0%</u>	<u>12.0%</u>
Averages	9.8%	10.2%	10.4%	10.6%

22

23
24 Furthermore, the currently authorized ROEs for the sample water utility companies
25 as reported by AUS Utility Reports (September 2014) average 10.03 percent. They
26 are as follows:

Company

American States Water (AWR)	9.99%
Aqua America (WTR)	10.29%
California Water (CWT)	9.99%
Connecticut Water (CTWS)	9.75%
Middlesex Water (MSEX)	10.15%
SJW Corp. (SJW)	9.99%
York Water. (YORW)	<u>NM</u>
Average	10.03%

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE RETURN DATA YOU JUST PRESENTED, MR. BOURASSA?

A. For one, they are all much higher than the Staff and RUCO returns produced by their models, before any consideration of financial or other risks. For another, since we are applying a return to a book value rate base, book equity returns have relevance. In fact, if we are to meet the comparable earnings standards set forth in *Hope* and *Bluefield*, then a comparison to book returns is an essential element. These utilities' rates will be in effect during approximately the same time period as USLLC. Yet, if the Staff or RUCO recommendation is adopted, USLLC will be allowed to earn much less, failing the *Hope* and *Bluefield* standard.

Q. IS IT YOUR VIEW THAT USLLC'S ROE IS HIGHER THAN THE PUBLICLY TRADED UTILITIES?

1 A. Yes. My recommendation in the instant case is 70 basis points higher than the
2 mid-point of my cost of equity estimates for the publicly traded water utilities.
3 USLLC has nearly 9 times more business risk than the publicly traded water
4 utilities, has a much higher operating leverage, is less diverse, and has limited
5 financially flexibility because it is not publicly traded.¹² Further, since USLLC is
6 not publicly traded, an investment in USLLC is illiquid compared to an investment
7 in a publicly traded company and therefore has greater liquidity risk and a higher
8 cost of capital. The 70 basis points difference is actually conservative given the
9 risks associated with an investment in USLLC.
10

11 **IV. REBUTTAL TO THE COST OF EQUITY RECOMMENDATIONS OF**
12 **STAFF AND RUCO**

13 A. **Rebuttal to the Cost of Equity Recommendations of Staff**

14 Q. **STAFF ONLY USED THE DCF MODEL TO ESTIMATE THE COST OF**
15 **EQUITY?**

16 A. Yes. Staff uses two versions of the DCF model - a constant growth DCF and a
17 multi-stage DCF. For unexplained reasons, Staff has not incorporated estimates
18 derived from it CAPM.¹³

19 Q. **IS THE USE OF ONLY ONE METHODOLOGY TO ESTIMATE THE**
20 **COST OF EQUITY APPROPRIATE?**

21 A. No. As Dr. Morin states:¹⁴

22 Each methodology requires the exercise of considerable
23 judgment on the reasonableness of the assumptions

24 ¹² Bourassa COC Dt. at 25-27.

25 ¹³ Cassidy Dt. at 3.

26 ¹⁴ Roger A. Morin. *New Regulatory Finance*, Public Utility Reports, Inc., 2006. pp. 428-429.

1 underlying the methodology and on the reasonableness
2 of the proxies used to validate a theory. *The inability of*
3 *the DCF model to account for changes in relative*
4 *market valuation, discussed below, is a vivid example*
5 *of the potential shortcomings of the DCF model when*
6 *applied to a given company.* Similarly, the inability of
7 the CAPM to account for variables that affect security
8 returns other than beta tarnishes its use. (emphasis
9 added)

10 No one individual method provides the necessary level
11 of precision for determining a fair return, but each
12 method provides useful evidence to facilitate the
13 exercise of an informed judgment. Reliance on any
14 single method or preset formula is inappropriate when
15 dealing with investor expectations because of possible
16 measurement difficulties and vagaries in individual
17 companies' market data

18 When measuring equity costs, which essentially deals
19 with the measurement of investor expectations, no
20 single methodology provides a foolproof panacea.
21 Each methodology requires the exercise of considerable
22 judgment on the reasonableness of the assumptions
23 underlying the methodology and on the reasonableness
24 of the proxies used to validate the theory. It follows
25 that more than one methodology should be employed in
26 arriving at a judgment on the cost of equity and that
these methodologies should be applied across a series
of comparable risk companies.

17 **Q. IS THE DCF A SUPERIOR METHODOLOGY?**

18 A. No. Again, I concur with Dr. Morin who states:¹⁵

19 While it is certainly appropriate to use the DCF
20 methodology to estimate the cost of equity, there is no
21 proof that the DCF produces a more accurate estimate
22 of the cost of equity than other methodologies. Sole
23 reliance on the DCF model ignores the capital market
24 evidence and financial theory formalized in the CAPM
25 and other risk premium methods. The DCF model is
26 one of many tools to be employed in conjunction with
other methods to estimate the cost of equity. *It is not a*
superior methodology that supplants other financial

¹⁵ Morin, p. 431.

1 *theory and market evidence. The broad usage of the*
2 *DCF methodology in regulatory proceedings in*
3 *contrast to its virtual disappearance in academic*
4 *textbooks does not make it superior to other methods.*
The same is true of the Risk Premium and CAPM
methodologies. (emphasis added)

5 **Q. DOES THE DCF TEND TO UNDERSTATE THE INVESTORS'**
6 **REQUIRED RETURN?**

7 A. Yes, when the market value of assets is significantly higher or lower than book
8 value, a market-based DCF cost rate applied to the book value of common equity
9 will not produce investors' expected returns. Dr. Morin also provides an
10 explanation for this flaw in the DCF:¹⁶

11
12 The third reason and perhaps most important for
13 caution and skepticism is that application of the DCF
14 model produces estimates of common equity cost that
15 are consistent with investors' expected return only
16 when stock price and book value are reasonably
17 similar, that is when the market-to-book ratio (M/B) is
18 close to unity. As shown below, application of the
19 standard DCF model to utility stocks understates the
20 investor's expected return when the M/B ratio of a
21 given stock exceeds unity. This was particularly
22 relevant in the capital market environment of the 1990s
23 and 2000s where utility stocks were trading at M/B
24 ratios well above unity and have been for nearly two
25 decades. The converse is also true, that is the DCF
26 model overstates the investor's return when the M/B
ratio is less than unity. The reason for the distortion is
that the DCF market return is applied to a book value
rate base by the regulator, that is, a utility's earnings
are limited to earnings on a book value rate base.

22 At Mr. Cassidy's average DCF estimate of 9.0 percent, USLLC would have no
23 realistic opportunity to actually earn Mr. Cassidy's market-based rate of return.

25 ¹⁶ Morin, p. 434.

1 For example, the average market price per share of his proxy group is \$25.25¹⁷ and
2 the average book value per share is \$12.50.¹⁸ Under these circumstances, Mr.
3 Cassidy's 9.0 percent market-based cost rate implies an annual return per share of
4 \$2.27¹⁹ consisting of \$0.73 in dividends²⁰ and \$1.54 in growth (market-price
5 appreciation).²¹ However, application of a 9.0 percent return rate to book value per
6 share (\$12.50) produces an opportunity to earn a total annual return of just \$1.13.²²
7
8 With annual dividends of \$0.73²³, the utility could reasonably expect market-price
9 appreciation of just \$0.40²⁴, or only 1.58 percent.
10

11 As should be evident from the above example, the application of the DCF
12 model produces estimates of the cost of equity that are consistent with investor
13 expectations only when the market price of a stock and the stock's book value are
14 approximately the same.²⁵ This is because in a regulatory setting the return is
15 applied to book value, not market value. An underlying assumption of the standard
16 DCF is that the stock price, book value, dividends, and earnings all grow at the
17
18

19 ¹⁷ Average of stock prices for Cassidy proxy group at October 28, 2014.

20 ¹⁸ Average of book value per share as of December 31, 2013, as reported by *Value Line*.

21 ¹⁹ 9.0 percent times \$25.25.

22 ²⁰ Average adjusted dividend yield (D_0) for Cassidy proxy group of 2.9 percent times the average stock price of \$25.25.

23 ²¹ Implied growth of 6.1 percent (the return of 9.0 percent less adjusted dividend yield of 2.9 percent) times the average stock price of \$25.25.

24 ²² 9.0 percent times \$12.50.

25 ²³ \$1.13 times average payout ratio of 60%

26 ²⁴ \$1.13 minus \$0.68.

²⁵ Roger A. Morin, *New Regulatory Finance* (Public Utility Reports, Inc., 2006) ("Morin"), pp. 435.

1 same rate.²⁶ None of these assumptions have been historically true for the sample
2 electric utility companies. Thus, one must be careful in the application of the DCF
3 model in a cost of equity analysis; particularly when it is the only method
4 employed.
5

6 We should also be concerned with the DCF model's applicability under
7 current market conditions. The Federal Reserve's bond buying programs have kept
8 longer-term bond yields low. Interest rates are expected to rise when the Federal
9 Reserve ends its bond buying program and the economy continues to improve, but
10 in the meantime and because bond yields are extremely low, investors are "chasing
11 yields" and driving up the stock prices of companies that pay dividends, like
12 utilities.²⁷ In fact, according to the Wall Street Journal, utilities have provided the
13 best returns among the S&P 500's 10 sectors so far this year, returning 14 percent
14 including dividends.²⁸ The 1-year, 3-year, and 5 – year annualized total returns
15 for Mr. Cassidy's water proxy group are 12.76 percent, 12.57 percent, and 11.56
16 percent, respectively, which are all significantly higher than Mr. Cassidy's estimate
17
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24 ²⁶ Morin p. 292.

25 ²⁷ "Dividend Paying Stocks Fit the Bill: Utilities and REITS Are Among Those Beating Major Indices; 'The Search
for Yield Hasn't Abated,'" *Wall Street Journal*, July 8, 2014.

26 ²⁸ *Id.*

1 of the cost of equity.²⁹ The recent higher returns expected by investors does not
2 line up with recent experience in the markets. As Dr. Morin notes,

3
4 To the extent that increase (decreases) in relative
5 market valuation are anticipated by investors,
6 especially myopic investors with short-term investment
7 horizons, the standard DCF model will understate
(overstate) the cost of equity.

8 Another way of stating this point is that the DCF model
9 does not account for the ebb and flow of investor
10 sentiments over the course of the business cycle. The
11 problem was particularly acute in the mid 1990's and
12 mid 2000's where investors, faced with very low
13 returns on short-term fixed-income securities and an
uncertain market outlook, sought higher yields offered
by utility stocks in a so-called flight to quality, boosting
their stock price and lowering the dividend yield.³⁰

14
15 The understatement/overstatement of investors' required return associated with the
16 application of the market price-based DCF model to the book value of common
17 equity clearly illustrates why reliance upon a single common equity cost rate model
18 should be avoided.

19 **Q. PLEASE COMMENT ON MR. CASSIDY'S DISCUSSION (AT PAGES 22-**
20 **23 OF HIS DIRECT TESTIMONY) REGARDING THE FINANCIAL**
21 **IMPLICATIONS OF A MARKET-TO-BOOK RATIO OF GREATER**
22 **THAN 1.0.**
23

24
25 ²⁹ *Value Line* Analyzer data from August 28, 2014.

26 ³⁰ Morin, p. 433 (emphasis added).

1 A. There are a number of reasons investors may bid up market prices for stocks above
2 book values, other than an expectation that a water utility will earn more than its
3 cost of equity. One reason is that investors may expect a city or some other public
4 entity to condemn all or part of a water utility, meaning the municipality will
5 acquire the assets at the fair market value. Water utilities typically have assets that
6 have a value based on reproduction cost that is well in excess of book value, and
7 investors would be aware that a condemnation award could be well in excess of
8 book values, even if the utility earns no more than its cost of equity.

9 Second, investors may anticipate a merger or acquisition that produces
10 premium prices. With such anticipated sale prices well above book values, a water
11 utility would also be priced above book value even if the water utility made no
12 more than its cost of equity. There are other reasons as well. These include; (1)
13 public utility commissions do not issues orders simultaneously in all jurisdictions,
14 (2) not all of a company's earnings are regulated, (3) regulatory expenses, revenue
15 and rate base adjustments may cause accounting returns to differ from those
16 calculated on a rate case basis, (4) actual sales do not equal sales assumed in a rate
17 case, (5) market expected ROEs change frequently while rate-case authorized
18 ROEs do not, and (6) regulated subsidiaries constitute only a piece of a holding
19 company pie.

20 The argument that utilities are earning more than their cost of capital
21 because the market-to-book ratio is greater than 1.0 is superficial. There is ample
22 evidence that for at least a decade now, regulated water utilities in Arizona have
23 not been earning their costs of service, let alone overearning. Mr. Cassidy's claim
24 - that one would expect market forces to move the stock price lower, close to a
25 market-to-book ratio of 1.0, to reflect investor expectations of reduced expected
26

1 future cash flows - is also flawed. Mr. Cassidy has ignored many of the things of
2 importance to investors and why it is reasonable to expect market-to-book ratios to
3 exceed 1.0 even if water utilities are expected to earn no more than their costs of
4 equity. If regulators were to force the market-to-book ratios to 1.0 by intentionally
5 lowering the allowed returns, such action would place utilities at a disadvantage in
6 competing for investment capital with industrials and other unregulated companies,
7 whose stock trades well above book value.

8 **Q. PLEASE COMMENT ON STAFF'S ECONOMIC RISK ASSESSMENT, OR**
9 **EAA.**

10 A. I can't, at least not in any meaningful way. Staff does not really explain the basis
11 for this adjustment in its testimony except to say that its EAA reflects the uncertain
12 status of the economy and the market.³¹ But Staff provides no analysis, study or
13 authoritative reference upon which Mr. Cassidy's judgment rests for me to
14 consider. Of course, I agree with Staff that the current economic environment
15 supports increased ROEs. Interest rates are expected to increase as the FED
16 curtails its easy money policies.³² Yet, I have never seen an adjustment of this type
17 from Staff or anyone else until the past couple of years. When economic
18 conditions were far worse in 2008 through 2010, Staff never advanced an EAA. I
19 am left a bit perplexed by the whole thing, but my skepticism, and the fact that the
20 EAA has popped into existence out of nowhere, leads me to conclude that it is an
21 ill-considered band-aid to cover up an unreasonably low ROE. Recall that without
22
23
24

25 ³¹ Cassidy Dt. at 28.

26 ³² Blue Chip Financial Forecast, August 2014.

1 the EAA, Staff's ROE model would be only 9.0 percent (9.6 percent average of
2 Staff's models less EAA of 60 basis points).³³

3
4 **B. Responses to Staff's Criticisms of the Company's Cost of Capital**
5 **Analysis**

6 **Q. MR. CASSIDY CRITICIZES YOU (ON PAGE 30 OF HIS DIRECT**
7 **TESTIMONY) FOR RELYING SOLEY ON ANALYSTS FORECASTS OF**
8 **EPS GROWTH IN THE DCF MODEL. IS THIS TRUE?**

9 A. No. I rely on both historical growth rates *and* forecasts of growth. For the
10 historical growth rates, I use historical per share price growth, historical BVPS
11 growth, historical EPS growth, and historical DPS growth.³⁴ For the forecast
12 growth rate, I used long-term analyst estimates of EPS growth.³⁵ I just give more
13 weight to the analyst forecasts of growth. It is important to note that Mr. Cassidy
14 disagrees with the additional weight I give the analyst forecasts, but he is not
15 saying these forecasts have no merit, nor did I rely solely on analyst forecasts of
16 growth. The dispute between Mr. Cassidy and me comes down to something
17 between 50 percent and my "greater" emphasis. In my direct testimony I explained
18 why a weight greater than 50 percent should be given to analysts' estimates.³⁶

19
20
21
22
23 _____
24 33 Cassidy Dt. at 28.

25 34 Bourassa COC Dt. at 35.

26 35 Id.

36 Bourassa COC Dt. at 31.

1 Q. AREN'T YOUR GROWTH ESTIMATES SIMILAR TO STAFF'S DESPITE
2 THE GREATER EMPHASIS YOU PLACE ON ANALYSTS' FORECASTS
3 OF GROWTH?

4 A. Yes. Staff's growth estimate for its constant growth DCF is 5.7 percent.³⁷ The
5 implied growth for Staff's multi-stage DCF is 6.4 percent.³⁸ My two DCF growth
6 estimates are 5.2 percent and 5.7 percent with a median of 5.5 percent.³⁹ In other
7 words, my growth estimates are lower than Staff's. Any criticisms by Mr. Cassidy
8 of my greater emphasis on analysts growth and the implication that my DCF
9 estimate is overstated as a result is unfounded. As such, I will not respond at this
10 time to Mr. Cassidy's criticisms of my use of analyst growth estimates on pages 31
11 through 35 of his testimony.

12 Q. DO YOU HAVE EVIDENCE THAT THE GROWTH FORECASTS USED
13 BY BOTH STAFF AND THE COMPANY ARE SIGNIFICANTLY
14 UNDERSTATED?

15 A. Yes. The 1-year, 3-year, and 5-year annualized total returns reported by *Value*
16 *Line* (August 28, 2014) for Mr. Cassidy's water proxy group are approximately
17 12.8 percent, 12.6 percent, and 11.6 percent, respectively.⁴⁰ These indicated
18 returns would imply a growth rate for the DCF model in the range of 8.7 to 9.9
19 percent.⁴¹ Compare this to Staff's 5.7 percent growth rate and 6.4 percent
20

21 ³⁷ See Staff Schedule JAC-3. Solving the DCF model as set forth in Mr. Bourassa's Direct Testimony at page 31
22 yields $g = k - D1/P0$. Substituting Staff's dividend yield of 2.9% for $D1/P0$ and the Staff 9.3% result for k we get: g
23 $= 6.4 = 9.3 - 2.9$

23 ³⁸ See Staff Schedule JAC-3. The multi-stage DCF indicated cost of equity is 9.3 percent. Using the

24 ³⁹ See USLLC Schedule D-4.8.

24 ⁴⁰ A stock's total return is the percentage increase in the value of a shareholder's investment, assuming reinvestment
25 of all dividends and adjusted for any stock splits.

25 ⁴¹ Solving the DCF model as set forth in Mr. Bourassa's Direct Testimony at page 31 yields $g = k - D1/P0$.
26 Substituting Staff's dividend yield of 2.9 for $D1/P0$ and the high end of the range of 12.8 percent for k we get: $g =$

1 mentioned above. Even the growth rate based on analyst estimates that I use – 5.2
2 percent and 5.7 percent as shown on Schedule D-4.8 – falls far short of the implied
3 growth rate investors have realized over the recent past. What this shows is that
4 even when using forecasts of earnings growth, the indicated cost of equity can
5 vastly understate the cost of equity.

6 **Q. PLEASE COMMENT ON MR. CASSIDY'S TESTIMONY (AT PAGE 37)**
7 **CRITICIZING YOU FOR CONSIDERING THE FORECASTED**
8 **INTEREST RATES AS A PROXY FOR THE RISK FREE RATE.**

9 **A.** By nature, the cost of capital is an opportunity cost: the prospective return available
10 to investors from alternative investments of similar risk. In addition, we are setting
11 rates that will be in effect for some future time period, the cost of capital estimation
12 must be forward-looking. Since the cost of capital is prospective in nature it
13 necessarily requires the use of a forward-looking bond yield.

14 **Q. ANYTHING ELSE.**

15 **A.** Yes. First, the average expected 30-year Treasury bond rates of 4.3 percent I
16 employ in my CAPM analyses is higher than rates currently, but lower than
17 Treasury bond rates were during most years used to determine historical
18 relationships between interest rates and equity costs (and thus, risk premiums); the
19 long-term risk-free rate (1926-2013) is 5.09 percent.⁴² As a result, risk premiums
20 today are expected to be higher than in the past.

21 **Q. WHY IS THAT RISK PREMIUMS TODAY ARE EXPECTED TO BE**
22 **HIGHER THAN RISK PREMIUMS IN THE PAST?**

23 **A.** There is a theoretical reason and many sources of empirical data that support the
24

25 8.7 = 11.6 – 2.9 and and the low end of the range of 11.6 percent for k we get: g = 9.9 = 12.8 – 2.9.

26 ⁴² Morningstar, *Ibbotson SBBI 2014 Classic Yearbook*, Table 11-5.

1 proposition that equity risk premiums increase when interest rates decrease.⁴³

2 **Q. THANK YOU. PLEASE CONTINUE.**

3 A. The Federal Reserve has kept bond yields artificially low through its aggressive
4 bond buying programs and other measures.⁴⁴ The Federal Reserve's bond buying
5 programs are not sustainable and the continuation of these programs is not
6 unlimited. The ending of these programs is expected later this year and the Federal
7 Reserve is expected to begin raising interest rates by the middle of next year.⁴⁵
8 Therefore, interest rate levels since 2008 and current interest rate levels are not
9 representative of the long-term cost of capital.

10 **Q. HAS MR. CASSIDY PROVIDED ANY ANALYSES OR STUDIES THAT**
11 **SUGGEST THAT CURRENT INTEREST RATES ARE BETTER PROXIES**
12 **FOR THE RISK FREE RATE IN THE CAPM.**

13 A. No. Staff typically uses spot interest rates in its CAPM. In my view, the currently
14 low interest rates (as the result of the Fed's unprecedented actions to spur the
15 economy in recent years)⁴⁶ contribute to distortions in Staff's CAPM, particularly
16 when spot rates are used. This may be one of the reasons why Staff has abandoned
17 its CAPM at this time while I have not.

18 **Q. PLEASE COMMENT ON MR. CASSIDY'S TESTIMONY (AT PAGE 38)**
19 **CRITICIZING YOU FOR CONSIDERING THE DIFFERENCES IN RISK**
20 **DUE TO THE SIZE OF USLLC COMPARED TO THE PUBLICLY**
21 **TRADED SAMPLE UTILITIES.**

22
23 ⁴³ Morin, Chapter 4.; Harris and Marston, "Estimating Shareholders Risk Premia Using Analysts'
24 Growth Rates," *Financial Management*, Summer 1992.;

24 ⁴⁴ Bourassa Dt. at 9-11.

25 ⁴⁵ Blue Chip Financial Forecast, August 2014.

26 ⁴⁶ Bourassa Dt. at 9-11.

1 A. I have not made a specific size adjustment for USLLC; rather, I have pointed out
2 the differences in risk stemming from USLLC's higher business risk, operating
3 leverage, and liquidity and have recommended a return on equity that is above the
4 mid-point.⁴⁷ My recommendation of 11.0 percent, which is 70 basis points higher
5 than the mid-point of my analyses of 10.3 percent, is conservative given the risks
6 of an investment in USLLC. That said, Mr. Cassidy does not dispute that smaller
7 companies are more risky than larger companies.⁴⁸

8 **Q. TO REBUT ANY IMPACT OF SIZE FOR UTILITY COMPANIES, MR.**
9 **CASSIDY REFERENCES A STUDY BY ANNIE WONG (AT PAGE 38).**
10 **ARE YOU FAMILIAR WITH THIS STUDY?**

11 A. I sure am. Over the past 10 plus years or so Staff's witnesses have repeatedly
12 trotted out this one study to refute the notion that utilities like USLLC are more
13 risky than the proxy companies because they are considerably and significantly
14 smaller. Mr. Cassidy has done so in the past. In one recent case, he admitted on
15 cross examination that he had never read Ms. Wong's actual paper, wasn't even
16 sure what kind of paper it was (he thought it might be her doctoral thesis), and did
17 not know whether it had ever been published.⁴⁹ Mr. Cassidy also stated that he was
18 unaware of any other person that had published a similar conclusion.⁵⁰ I do not
19 know what else Ms. Wong has done since, but I suspect this item of Ms. Wong's
20 work, and its questionable conclusions, have found no greater audience than at
21 public utility commissions where some party is trying to justify an unreasonably
22 low ROE for a utility that is not publicly traded.

23
24 ⁴⁷ Bourassa Dt. at 25.

⁴⁸ Cassidy Dt. at 38.

25 ⁴⁹ Transcript from March 28, 2013 hearing at 237:18 – 239:8, Rio Rico Utilities, Inc.

26 ⁵⁰ Id. 238:13-20

1 **Q. HAS MS. WONG DISPROVED THE EXISTENCE OF A SIZE PREMIUM**
2 **FOR SMALL UTILITY STOCKS?**

3 A. No. Actually, Ms. Wong's study has been criticized soundly: "[her] weak evidence
4 provides little support for a small firm effect existing or not existing in either the
5 industrial or the utility sector."⁵¹ Dr. Zepp found that Ms. Wong's empirical results
6 were not strong enough to conclude that beta risk of utilities is unrelated to size; he
7 found that her use of monthly, weekly, and daily data may be the cause of her
8 inability to find a relationship; and he found other studies that show trading
9 infrequency to be a powerful cause of bias in beta risk when time intervals of a
10 month or less are used to estimate beta's for small stocks.⁵² The studies relied on
11 in Mr. Zepp's published paper found, "when a stock is thinly traded, its stock price
12 does not reflect the movement of the market, which drives down the covariance
13 with the market and creates an artificially low beta estimate."⁵³ Thus, Ms. Wong's
14 weak results were due to a flawed analysis.

15 **Q. DON'T PASCHALL AND HAWKINS (QUOTED BY MR. CASSIDY ON**
16 **PAGE 39) SUPPORT MS. WONG AND MR. CASSIDY'S VIEW THAT**
17 **SMALLER WATER UTILITIES ARE NOT MORE RISKY THAN**
18 **LARGER WATER UTILITIES?**

19 A. No, the authors do not argue against a small company risk premium for small water
20 utilities. Instead, they merely suggest that the small company risk premium may be
21 lower than the average company for the reasons they state.⁵⁴ A very low risk
22

23 ⁵¹ Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," *The Quarterly Review Economics and Finance*,
Vol. 43, Issue 3, Autumn 2003, 578-582.

24 ⁵² *Id.* at 579.

24 ⁵³ *Id.*

25 ⁵⁴ Micheal A. Paschall and George B. Hawkins, "Do Smaller Companies Warrant a Higher Discount Rate for Risk":
26 The Size Effect' Debate," *CCH Business Valuation Alert*, Vol 1, Issue No. 2, December 1999.

1 premium for USLLC compared to the average company is exactly what I
2 recommend in this case.

3 According to the empirical financial market data provided by Duff &
4 Phelps, the indicated size premium over for a company the size of USLLC would
5 be 12.12 percent over the average company the size of USLLC.⁵⁵ A size premium
6 analysis provided in **Exhibit TJB-COC-RB1** indicates a size premium in the range
7 of 99 to 377 basis points over the water proxy group. My implied risk premium is
8 just 70 basis points⁵⁶, which is about 6 percent of the indicated small company risk
9 premium for an average company the size of USLLC based on Duff&Phelps
10 market data, and well below the bottom end of the range of the indicated additional
11 risk premium over my water proxy group. Therefore, I think Paschall and Hawkins
12 support my analysis not Mr. Cassidy's. That's true with respect to both, whether
13 size matters, and, whether my recommended 11.0 return is conservative.

14 **Q. DO YOU FIND ANY FURTHER SUPPORT IN PASCHALL AND**
15 **HAWKINS?**

16 A. Yes, as a matter of fact, I do. One of the main points of the authors' discussion
17 was that the use of small company risk premium without consideration of the
18 specific risks of the subject company could be subject to challenge. Recognition of
19 the additional risk associated with an investment in USLLC compared to his water
20 proxy group is something Mr. Cassidy fails to do.

21 That said, a great deal of my direct testimony was devoted to comparing the
22 differences between the large publicly traded company and USLLC that would
23

24
25 ⁵⁵ Duff&Phelps, *2014 Valuation Handbook*. Exhibit 7.3, Decile 10z.

26 ⁵⁶ 11.0 percent recommendation less mid-point of 10.2 percent.

1 reflect differences in risk, which is exactly what the authors would recommend. As
2 Paschall and Hawkins conclude:

3
4 Failing to consider the additional risk associated with
5 most smaller companies, however, is to fail to
6 acknowledge reality. Measured properly, small
7 company stocks have proven to be more risky over a
8 long period of time than have larger company stock.
9 This makes sense due to the various advantages that
larger companies have over smaller companies. Investors looking to purchase a riskier company will require a greater return on investment to compensate for that risk.⁵⁷

10 **Q. DO PASCHALL AND HAWKINS REFERENCE ANY STUDIES TO**
11 **SUPPORT THE PROPOSITION THAT A PRIVATELY HELD SMALL**
12 **WATER UTILITY HAS THE SAME RISK AS A LARGE PUBLICLY**
13 **TRADED UTILITY?**

14 A. No.

15 **Q. ARE THERE ANY STUDIES THAT CONTRADICT MS. WONG'S**
16 **FINDINGS?**

17 A. Yes, besides basic business sense, I am aware of two other studies that support the
18 conclusion that small utilities are more risky than larger utilities. The first, a study
19 conducted by the California Public Utilities Commission ("CPUC") looked at
20 58 water utilities.⁵⁸ Based on that study, the CPUC Staff concluded that smaller
21 water utilities are more risky and required higher equity returns than larger water
22 utilities. This position was adopted by the CPUC.⁵⁹ A second study, conducted by
23 Dr. Zepp, showed that on average, the smaller water utilities in his study had a

24 ⁵⁷ Paschall supra.

25 ⁵⁸ Id. at 580.

26 ⁵⁹ Zepp, supra.

1 99 basis point higher cost of equity.⁶⁰ In short, Ms. Wong's now 20 year-old study
2 of unknown providence, should be given little to no weight in these proceedings.

3 **Q. DOES MR. CASSIDY DISPUTE YOUR ASSESSMENTS OF THE**
4 **RELATIVE BUSINESS RISK BETWEEN THE PUBLICLY TRADED**
5 **UTILITIES AND USLLC?**

6 A. No. As I showed in my direct testimony, USLLC is nearly 9 times more risky than
7 the publicly traded utilities as measured by the co-efficient of variation of
8 earnings.⁶¹ USLLC is roughly 8 times risky as measured by operating leverage.⁶²
9 These are quantitative measures of relative business risk and not simply an opinion.

10 **C. Rebuttal to the Cost of Equity Recommendations of RUCO**

11 **Q. PLEASE COMMENT ON THE RUCO DCF ANALYSIS?**

12 A. As discussed previously on pages 9-12, the DCF model has a tendency to mis-
13 specify investors' required return rate when the market value of common stock
14 differs significantly from its book value. The market-based DCF model will result
15 in a total annual dollar return on book common equity equal to the total annual
16 dollar return expected by investors only when market and book values are equal,
17 but market values and book values of common stocks are rarely at unity.

18 **Q. WHAT ARE THE RESULTS OF RUCO'S DCF ANALYSIS?**

19 A. RUCO DCF results are just 7.3 percent to 7.4 percent.⁶³ By comparison of the
20 actual and authorized returns of the public traded utilities as discussed on pages 5
21 and 6 (9.8 percent to 10.6 percent) and the recent annualized total market returns
22

23

⁶⁰ Id.

24 ⁶¹ Bourassa Dt. at 25.

25 ⁶² Id. at 26.

26 ⁶³ See RUCO Schedule RBM-4, page 1.

1 for the water utilities of 11.6 to 12.8 percent. Mr. Mease's own CE analysis
2 indicated a return of 9.8 percent. Mr. Mease's results are extremely low by
3 comparison and do not pass the smell test.

4 **Q. DOESN'T MR. MEASE REPORT (AT PAGE 11) THAT HIS DCF**
5 **ANALYSIS RESULTS ARE IN THE RATE OF 7.3 to 8.7 PERCENT?**

6 A. Yes. Mr. Mease gets his 8.7 percent by reporting a composite median which he
7 does not define or explain. The 8.7 percent is the result he reports on his summary
8 cost of capital schedule (Schedule RDM-2) as the result for his DCF analysis.
9 This "slight of hand" makes me think he is reporting statistics which he can then
10 pick and choose from to cover up for his unreasonably low results. Regardless,
11 like the Staff DCF results, USLLC would have no realistic opportunity to actually
12 earn Mr. Mease's market-based rate of return at either 7.3 percent or 8.7 percent. I
13 could perform the same analysis for the Staff DCF result as I did on pages 9-10 to
14 demonstrate my assertion.

15 **Q. ANTHING ELSE?**

16 A. Yes. Mr. Mease reports a 3.9 percent indicated cost of equity for Middlesex Water
17 on Schedule RBM-4. This is less than the current yield on Baa investment grade
18 bonds of 4.73 percent.⁶⁴ In fact, there is only one DCF indicated cost of equity in
19 Mr. Mease's schedule that is above 8.7 percent.

20 **Q. PLEASE COMMENT ON THE RUCO CAPM ANALYSIS?**

21 A. Mr. Mease's CAPM analysis produces an indicated cost of equity of just 7.25
22 percent. I am not surprised by his low CAPM results. His analysis is flawed in at
23 least five respects. First, he has incorrectly relied upon a historical risk-free rate
24

25 ⁶⁴ Moody's Seasoned Baa bond yield as of October 1, 2014 as reported by the Federal Reserve.
26

1 despite the fact that both ratemaking and the cost of capital are prospective.
2 Second, he has exclusively relied on historical measures of the market risk
3 premium and does not employ a forward looking market risk premium. Third, his
4 historical measures of the market risk premium are measured on market indices
5 which are made up of the largest publicly traded companies and he does not
6 recognize the additional risk premium of much smaller firms. Fourth, he employs
7 a market risk premium that is based in part on historic geometric means, which
8 should not be used in a prospective model like the CAPM. Fifth, he uses total
9 returns on long-term government bonds in computing the market risk premium,
10 which is inconsistent with treating the security as a riskless asset.

11 **Q. PLEASE ELABORATE ON MR. MEASE'S USE OF HISTORICAL YIELDS**
12 **ON LONG-TERM U.S. TREASURIES.**

13 A. Mr. Mease relies on historical yields on long-term U.S. Treasury bond yields (i.e. 3
14 month recent historical average of 20-year U.S. Treasury bond yields) for his
15 CAPM analysis.⁶⁵ I have several concerns about the use of current interest rates.
16 First, it ignores the fact that both the cost of capital and ratemaking are prospective.
17 Second, the average 20-year Treasury bond rates of 3.47 percent computed by Mr.
18 Mease⁶⁶ is lower than Treasury bond rates were during most years used to
19 determine historical relationships between interest rates and equity costs (and thus,
20 risk premiums). Because risk premium vary inversely with interest rates, risk
21 premiums today are expected to be higher than in the past. Thus, Mr. Mease's
22 MRP which are based on an historical time period from 1926 to 2012 conflicts with
23 the current low interest rate levels. Let me explain. On page 14 of his testimony,

24
25 ⁶⁵ Mease Dt. at 12.

26 ⁶⁶ *Id.*

1 Mr. Mease shows the arithmetic mean and geometric mean total return on long-
2 term government bonds for the years 1926-2012 were 6.1 percent and 5.7 percent,
3 respectively. On a correct income return basis, the arithmetic mean and geometric
4 mean income return on long-term government bonds for the year 1926-2012 were
5 5.2 and 5.1 percent, respectively. All of these bond returns are higher than Mr.
6 Mease's estimate of the risk free rate of 3.47 percent. As the historical data
7 shows interest rates upon which Mr. Mease's MRP is developed far exceed the
8 3.47 percent he employs in his CAPM for the risk free rate

9 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY "CORRECT INCOME**
10 **RETURN BASIS".**

11 A. I will discuss this in more depth at page 26. For now, total return is comprised of
12 three components; the income return, the capital appreciation return and the
13 reinvestment return. Only the income return is the unbiased estimate of the riskless
14 rate because it represents the riskless portion of the return. Because bond prices
15 vary with prevailing bond yields over time, the inclusion of the capital appreciation
16 return and reinvestment returns introduces price risk into the total return.
17 Therefore, the total return does not represent a riskless return.

18 **Q. PLEASE CONTINUE.**

19 Q. The arithmetic mean and geometric mean for long-term income returns on
20 government bonds have remained fairly stable at around 5.1 to 5.2 percent since
21 2009 (i.e. 1926-2009, 1926 2010, 1926-2011, 1926-2012, and 1926-2013).⁶⁷ While
22 interest rate levels have been and are expected to remain low in the short-term,
23 long-term interest rate levels are expected to rise in the next few years.

24
25 ⁶⁷ As reported by Morningstar.
26

1 **Q. DO LOWER INTEREST RATES OVER THE PAST SEVERAL YEARS**
2 **MEAN THAT THE COST OF EQUITY IS LOWER TODAY THAN IN THE**
3 **PAST?**

4 A. All things being equal, the cost of equity moves in the same direction as interest
5 rates. Lower interest rates on U.S. Treasuries ("risk-free" rate) imply lower equity
6 returns and visa-versa. However, the risk premium required to compensate
7 investors also impacts the cost of equity. Lower interest rates are associated with
8 higher equity risk premiums. Higher risk premiums required by investors imply
9 higher equity costs and vice versa. Risk premiums are impacted by uncertainty not
10 only future interest rates, but business and economic conditions, expected inflation
11 (or deflation), and other risk factors including business risk, regulatory risk,
12 financial risk, construction risk, and liquidity risk. As noted on page 11, investors
13 in Mr. Mease's water proxy group have realized market returns of 11.6 percent to
14 12.8 percent over the past several years despite the low interest rate environment.

15 **Q. PLEASE COMMENT ON MR. MEASE'S FAILURE TO USE A**
16 **PROSPECTIVE MARKET EQUITY RISK PREMIUM.**

17 A. As noted on pages 16-17 above, the cost of capital is prospective in nature. As
18 such, it necessarily requires the use of a forward-looking MRP. .

19 **Q. PLEASE COMMENT ON MR. MEASE'S USE OF LARGE COMPANY**
20 **INDEXES TO COMPUTE HIS MARKET RISK PREMIUM.**

21 A. In his CAPM analysis, Mr. Mease uses the total returns on the S&P 500 (1926-
22 2012) in the computation of his market risk premium.⁶⁸ The S&P 500 consists of
23 the 500 largest companies and only approximately 20 percent of the S&P 500
24

25 ⁶⁸ Mease Dt. at 14.
26

1 would be considered Mid Cap companies. Further, there are no companies in the
2 Low-Cap or Micro-Cap categories. Because it is heavily weighted with Large-Cap
3 companies, the S&P 500 is essentially a large company index. Morningstar refers
4 to the S&P 500 as a large company index and cautions that "if using a large
5 company index to calculate the equity risk premium, an adjustment is usually made
6 to account for the different risk and return characteristics of small stocks."⁶⁹

7 **Q. SHOULD THE CAPM RESULTS BE ADJUSTED TO REFLECT THE**
8 **SMALL SIZE OF USLLC COMPARED TO MR. MEASE'S PROXY**
9 **GROUP?**

10 A. Yes. The empirical evidence shows that smaller firms have higher betas.
11 Morningstar reports that beta is inversely related to size.⁷⁰ In other words, as firm
12 size decreases, beta increases. Because the CAPM is incomplete it should be
13 adjusted to reflect the additional risks of smaller firms.⁷¹

14
15 **Q. PLEASE COMMENT ON MR. MEASE'S USE OF GEOMETRIC MEANS**
16 **IN ESTIMATING THE HISTORICAL MARKET RISK PREMIUM FOR**
17 **HIS CAPM ANALYSIS.**

18 A. Mr. Mease employs a geometric mean in calculating the market risk premium in
19 his primary CAPM.⁷² His choice to use geometric average is incorrect and
20 depresses his cost of equity estimate. As various finance experts have explained,
21

22 ⁶⁹ Morningstar, *Ibbotson SBBI 2014 Classic Yearbook*, p. 152.

23 ⁷⁰ Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook*, Table 7-5, Table 7-8, Table 7-10, Table 7-11, and Table 7-
24 12. Morningstar reports betas by portfolio for ten decile sizes using several alternative benchmarks. All alternatives
show that as firm size decreases beta increases.

25 ⁷¹ Bourassa Dt. at 37 and 42.

26 ⁷² Mease Testimony, p. 14.

1 an arithmetic mean is the correct approach to use in estimating the cost of capital.⁷³

2 As Dr. Morin states:

3
4 Because valuation is forward-looking, the appropriate
5 average is the one that most accurately approximates
6 the expected future rate of return. *The best estimate of*
7 *the expected returns over a future holding period is the*
8 *arithmetic average....*

9 There is no theoretical or empirical justification for the
10 use of geometric mean rates as a measure of the
11 appropriate discount rate or computing present values.
12 In any event, the CAPM is developed on the premise
13 of expected returns being averages and risk being
14 measured with standard deviation. Since the latter is
15 estimated around the arithmetic average, not the
16 geometric average, it is logical to stay with the
17 arithmetic averages to estimate the market risk
18 premium.⁷⁴

19 The consensus among these experts makes sense. Only arithmetic mean return
20 rates and yields are appropriate for cost of capital purposes because ex-post
21 (historical) total returns and equity risk premiums differ in size and direction over
22 time, providing insight into the variance and standard deviation of returns. The
23 geometric mean of ex-post equity risk premiums provides no insight into the
24 potential variance of future returns because the geometric mean relates the change
25 over many periods to a constant rate of change, rather than the year-to-year
26 fluctuations, or variance, which are critical to risk analysis. In short, the

24 ⁷³ Zvi Bode, Alex Kane, Alan J. Marcus, Investments (McGraw-Hill 6th ed., 2005) (“Bode”), pp. 864-865.

25 Richard A. Brealey, Stewart C. Myers, Franklin Allen, Principles of Corporate Finance (McGraw-Hill 11th
26 ed.) (“Brealey”), pp. 162-163.

⁷⁴ Morin, pp. 156-57 (emphasis added).

1 conclusion of these financial experts is that while the geometric mean is useful in
2 comparing what happened in the past, it should not be used to determine estimates
3 of expected future returns or market risk premiums.

4 **Q. WHAT OTHER ISSUE DO YOU HAVE WITH MR. MEASE'S**
5 **COMPUTATION OF THE MARKET RISK PREMIUM?**

6 A. As mentioned earlier on page 24, Mr. Mease incorrectly uses total returns on long-
7 term government bonds when computing his estimate of the market risk premium.
8 Although he has relied on *Morningstar's* historical returns in his CAPM analysis,⁷⁵
9 Mr. Mease has ignored *Morningstar's* recommendations regarding the use of the
10 income return, and not the total return on U.S. Treasury securities, in deriving an
11 equity risk premium. Pages 55 and 56 of the Ibbotson SBBI - 2013 Valuation
12 Yearbook states:

14 Another point to keep in mind when calculating the
15 equity risk premium is that the income return on the
16 appropriate-horizon Treasury security, rather than the
17 total return, is used in the calculation. The total return
18 is comprised of three return components: the income
19 return, the capital appreciation return, and the
20 reinvestment return. The income return is defined as
21 the portion of the total return that results from periodic
22 cash flow or, in this case, the bond coupon payment.
23 The capital appreciation return results from the price
24 change of a bond over a specific period. Bond prices
25 generally change in reaction to unexpected fluctuations
26 in yields. Reinvestment return is the return on a given
month's investment income when reinvested into the
same asset class in the subsequent months of the year.
The income return is thus used in the estimation of the

⁷⁵ Mease Testimony, p. 54.

1 equity risk premium because it represents the truly
2 riskless portion of the return.

3 * * * *

4 Anticipated changes in yields are assessed by the
5 market and figured into the price of a bond. Future
6 changes in yields that are not anticipated will cause the
7 price of the bond to adjust accordingly. Price changes
8 in bonds due to unanticipated changes in yields
9 introduce price risk into the total return. Therefore, the
10 total return on the bond series does not represent the
11 riskless rate of return. *The income return better
represents the unbiased estimate of the purely riskless
rate of return, since an investor can hold a bond to
maturity and be entitled to the income return with no
capital loss.*⁷⁶

12 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF
13 CAPITAL?

14 A. Yes. Although my silence on other positions of the other parties in this case on cost
15 of capital and that were not addressed in my rebuttal testimony does not constitute
16 agreement with them.

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25 ⁷⁶ Morningstar, Ibbotson SBBI 2013 Valuation Yearbook, 55-56 (emphasis added).
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D SCHEDULES

Utility Source, LLC
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Rebuttal Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure

Actual End of Test Year

Projected Capital Structure

Line No.	Item of Capital	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity	3,722,209	100.00%	11.00%	11.00%	3,649,952	100.00%	11.00%	11.00%
4									
5	Totals	3,722,209	100.00%		11.00%	3,649,952	100.00%		11.00%

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SUPPORTING SCHEDULES:

D-1
D-3
D-4

Testimony

RECAP SCHEDULES:

Exhibit
Rebuttal Rebuttal Schedule D-2
Page 1
Witness: Bourassa

[illegible]

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Rebuttal Rebuttal Sched
Page 1
Witness: Bourassa

Line

No.

1

End of Test Year

End of Projected Year

2

3

Description
of Issue

Shares

Dividend

Outstanding Amount Requirement

Shares

Dividend

Outstanding Amount Requirement

5

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NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

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SUPPORTING SCHEDULES:

RECAP SCHEDULES:

E-1

D-1

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Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Rebuttal Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line
No.

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2 The Company is proposing a cost of common equity of 11.00% .
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17 SUPPORTING SCHEDULES:

18 E-1

19 D-4.1 to D-4.18

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RECAP SCHEDULES:

D-1

Utility Source, LLC
Summary of Results

Exhibit
Rebuttal Schedule D-4.1
Witness: Bourassa

Line

No.

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Method

DCF Constant Growth Estimates¹

CAPM Estimates²

Build-up Method Estimates³

Mid-point

Recommended Cost of Equity⁴

Median
Result

9.0%

9.7%

11.6%

10.3%

11.0%

¹ See Rebuttal Schedule D-4.8

² See Rebuttal Schedule D-4.12

³ See Rebuttal Schedule D-4.18

⁴ Testimony

Utility Source, LLC
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rebuttal Schedule D-4.2
Witness: Bourassa

Line No.		% Water Revenues ¹	Operating Revenues (millions) ¹	Net Plant (millions) ¹	S&P Bond Rating ¹	Moody's Bond Rating ¹	Allowed ROE (%) ¹	Book ROE (%)
1								
2								
3	Company ¹							
4	1. American States	71%	\$ 458.4	\$ 988.7	A+	A2	9.99	12.30
5	2. Aqua America	98%	\$ 770.9	\$ 4,233.8	AA-	NR	10.29	14.60
6	3. California Water	100%	\$ 587.0	\$ 1,539.5	AA-	NR	9.99	7.90
7	4. Connecticut Water	100%	\$ 94.9	\$ 483.8	A/A-	NR	9.75	11.10
8	5. Middlesex	88%	\$ 115.1	\$ 451.4	A	NR	10.15	8.90
9	6. SJW Corp.	95%	\$ 277.5	\$ 915.0	A	NR	9.99	6.70
10								
11	Average	92%	\$ 384.0	\$ 1,435.4			10.03	10.25
12								
13	Utility Source, LLC	100%	\$ 0.3	\$ 4.0	NR	NR		
14	(Adjusted as of December 31, 2012)							
15								
16								
17								
18								
19								
20								
21	¹ AUS Utility Reports (September 2014).							
22								
23								
24								
25								

**Utility Source, LLC
Capital Structures**

**Exhibit
Rebuttal Schedule D-4.3
Witness: Bourassa**

<u>No.</u>		Book Value ¹		Market Value ¹	
		Long-Term <u>Debt</u>	Common <u>Equity</u>	Long-Term <u>Debt</u>	Common <u>Equity</u>
3	<u>Company</u>				
4	1. American States	39.8%	60.2%	21.5%	78.5%
5	2. Aqua America	48.9%	51.1%	25.9%	74.1%
6	3. California Water	41.6%	58.4%	28.0%	72.0%
7	4. Connecticut Water	47.0%	53.0%	32.7%	67.3%
8	5. Middlesex	40.7%	59.3%	29.0%	71.0%
9	6. SJW Corp.	51.0%	49.0%	38.1%	61.9%
10					
11	Average	44.8%	55.2%	29.2%	70.8%
12					
13	Utility Source, LLC	0.0%	100.0%	N/A	N/A
14	(Actual December 31, 2012)				
15					
16					
17	¹ Value Line Analyzer Data (September 28, 2014)				
18	² Adjusted Per Rebuttal Schedule D-1				
19					
20					
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26					
27					
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Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.4
Witness: Bourassa

Line
No.

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
							Average of Future and Historical Growth
	<u>Five-year historical average annual changes</u>					Average Future Growth ³	
		Book			Average		
	<u>Company</u>	<u>Price</u> ¹	<u>Value</u> ²	<u>EPS</u> ²	<u>DPS</u> ²	<u>Col 1-4</u>	<u>Col 5-6</u>
1.	American States	16.07%	6.50%	13.00%	6.50%	10.52%	2.67%
2.	Aqua America	11.70%	6.00%	11.00%	7.00%	8.92%	6.00%
3.	California Water	4.27%	4.50%	4.00%	1.50%	3.57%	6.50%
4.	Connecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	5.00%
5.	Middlesex	8.36%	3.00%	1.50%	1.50%	3.59%	3.60%
6.	SJW Corp.	4.24%	2.50%	0.50%	3.50%	2.69%	10.50%
	GROUP AVERAGE	9.57%	5.08%	6.33%	3.67%	6.16%	5.71%
	GROUP MEDIAN	10.03%	5.25%	6.00%	2.75%	5.64%	5.50%

¹ Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.

² Value Line Analyzer Data, September 28, 2014

³ See Rebuttal Schedule D-4.6.

Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.5
Witness: Bourassa

Line
No.

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	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Ten-year historical average annual changes					Average	Average of
		Book			Average	Future	Future and
	<u>Company</u>	<u>Price</u> ¹	<u>Value</u> ²	<u>EPS</u> ²	<u>DPS</u> ²	<u>Col 1-4</u>	<u>Historical</u>
						<u>Growth</u> ³	<u>Growth</u>
	1. American States	12.91%	5.00%	6.50%	3.00%	6.85%	4.76%
	2. Aqua America	10.31%	8.50%	7.00%	7.50%	8.33%	7.16%
	3. California Water	10.19%	5.00%	4.00%	1.00%	5.05%	5.77%
	4. Connecticut Water	6.58%	4.00%	0.50%	1.50%	3.14%	4.07%
	5. Middlesex	4.38%	4.50%	3.50%	1.50%	3.47%	3.53%
	6. SJW Corp.	12.91%	5.50%	4.00%	5.00%	6.85%	8.68%
	GROUP AVERAGE	9.54%	5.42%	4.25%	3.25%	5.62%	5.66%
	GROUP MEDIAN	10.25%	5.00%	4.00%	2.25%	5.95%	5.27%

¹ Average of changes in annual stock prices ending December 31, 2013. Data from Yahoo Finance website.

² Value Line Analyzer Data, September 28, 2014.

³ See Rebuttal Schedule D-4.6.

Utility Source, LLC
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rebuttal Schedule D-4.6
Witness: Bourassa

Line
No.

	[1]	[2]	[3]	[4]
1				
2				
3				
4	ESTIMATES OF EARNINGS GROWTH			
5			Value	Average
6	<u>Company</u>	<u>Yahoo¹</u>	<u>Zacks¹</u>	<u>Line²</u>
7	1. American States	1.00%	1.00%	6.00%
8	2. Aqua America	4.00%	5.50%	8.50%
9	3. California Water	6.00%	6.00%	7.50%
10	4. Connecticut Water	5.00%	5.00%	5.00%
11	5. Middlesex	2.70%		4.50%
12	6. SJW Corp.	14.00%		7.00%
13				10.50%
14				
15	GROUP AVERAGE	5.45%	4.38%	6.42%
16	GROUP MEDIAN			5.71%
17				5.50%
18				

¹ Data as of October 2, 2014

² Data as of September 28, 2014.

² Where no data available or single estimate, average of other utilities assumed to estimate for utility.

28

Utility Source, LLC
Current Dividend Yields for Water Utility Sample Group

Exhibit
Rebuttal Schedule D-4.7
Witness: Bourassa

Line
No.

		Average Stock Price (P ₀) ¹	Current Dividend (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend Yield (D ₀ /P ₀) ^{1,2}
1	<u>Company</u>				
2	1. American States	\$ 31.20	\$ 0.87	2.79%	3.15%
3	2. Aqua America	\$ 24.24	\$ 0.66	2.72%	2.80%
4	3. California Water	\$ 23.41	\$ 0.66	2.82%	3.36%
5	4. Connecticut Water	\$ 32.48	\$ 1.03	3.17%	3.62%
6	5. Middlesex	\$ 20.24	\$ 0.77	3.80%	3.96%
7	6. SJW Corp.	\$ 26.85	\$ 0.76	2.83%	2.95%
8					
9	Average			3.02%	3.31%
10	Median			2.83%	3.26%

¹ Yahoo Finance. 60 day average of stock prices as of October 2, 2014.

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Utility Source, LLC
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rebuttal Schedule D-4.8
Witness: Bourassa

Line
No.

	[1]	[2]	[3]	[4]
				Indicated
				Cost of
				Equity
	Dividend	Expected		$k = \text{Div Yld} + g$
	Yield (D_0/P_0) ¹	Dividend	Growth (g)	(Cols 2+3)
		Yield (D_1/P_0) ²		
8	DCF - Past and Future Growth	3.02%	3.20%	5.94% ³
9				9.1%
10	DCF - Future Growth	3.02%	3.20%	5.71% ⁴
11				8.9%
12				
13	Average	3.02%	3.20%	5.82%
14				9.0%
15	Median	3.02%	3.20%	5.82%
16				9.0%

¹ Spot Dividend Yield = D_0/P_0 . See Rebuttal Schedule D-4.7.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Average of Past and Future Growth. See Rebuttal Schedule D-4.4, column 7

⁴ Growth rate (g). Average of Analyst Estimates Future Growth. See Rebuttal Schedule D-4.6.

28

**Utility Source, LLC
Market Betas**

**Exhibit
Rebuttal Schedule D-4.9
Witness: Bourassa**

Line
No.

	<u>Company</u>	<u>Beta (β)¹</u>
1		
2	1. American States	0.70
3	2. Aqua America	0.70
4	3. California Water	0.70
5	4. Connecticut Water	0.65
6	5. Middlesex	0.70
7	6. SJW Corp.	0.85
8		
9	Average	0.72

¹ Value Line Investment Analyzer data (Aug 5, 2013)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Utility Source, LLC
Forecasts of Long-Term Interest Rates**

**Exhibit
Rebuttal Schedule D-4.10**
Witness: Bourassa

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<u>Description</u>	<u>Average Aug-14</u>	<u>2015</u>	<u>2016</u>	<u>Average</u>
Blue Chip Consensus Forecasts ¹	3.20% ¹	4.10% ²	4.70% ²	4.40%
Value Line ²	3.20% ¹	3.90% ³	4.40% ³	4.20%
Average				4.30%

¹ Federal Reserve Monthly Average 30 Year U.S. Treasury

² June 2014 and September 2014 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury

³ Value Line Quarterly forecast, dated August 22, 2014, Long-term Treasury

Utility Source, LLC
Computation of Current Market Risk Premium

Exhibit
Rebuttal Schedule D-4.11
 Witness: Bourassa

Line
 No.

	Dividend Yield (D_0/P_0) ¹	Expected Dividend Yield (D_1/P_0) ²	+	Growth (g) ³	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate ⁴	=	Market Risk Premium (MRP)
3	<u>Month</u>									
4	Feb	2.01%	+	9.83%	=	12.04%	-	3.17%	=	8.87%
5	Mar	2.01%	+	9.83%	=	12.04%	-	3.16%	=	8.88%
6	April	1.98%	+	9.33%	=	11.49%	-	2.93%	=	8.56%
7	May	2.01%	+	9.50%	=	11.70%	-	3.11%	=	8.59%
8	June	2.14%	+	9.50%	=	11.84%	-	3.40%	=	8.44%
9	July	2.02%	+	9.50%	=	11.71%	-	3.61%	=	8.10%
10	Aug	2.14%	+	9.50%	=	11.84%	-	3.76%	=	8.08%
11	Sept	2.10%	+	9.50%	=	11.80%	-	3.79%	=	8.01%
12	Oct	2.00%	+	9.50%	=	11.69%	-	3.68%	=	8.01%
13	Nov	1.99%	+	9.50%	=	11.68%	-	3.80%	=	7.88%
14	Dec 2013	1.93%	+	9.50%	=	11.61%	-	3.89%	=	7.72%
15	Jan 2014	2.01%	+	9.83%	=	12.04%	-	3.77%	=	8.27%
16	Feb	2.01%	+	9.50%	=	11.70%	-	3.66%	=	8.04%
17	Mar	2.01%	+	9.50%	=	11.70%	-	3.62%	=	8.08%
18	Apr	1.98%	+	9.50%	=	11.66%	-	3.52%	=	8.14%
19	May	2.01%	+	9.42%	=	11.62%	-	3.39%	=	8.23%
20	June	1.98%	+	9.33%	=	11.50%	-	3.42%	=	8.08%
21	July	2.05%	+	9.50%	=	11.74%	-	3.33%	=	8.41%
22	Aug	2.01%	+	9.50%	=	11.70%	-	3.20%	=	8.50%
24	Recommended	2.01%	+	9.44%	=	11.65%	-	3.32%	=	8.33%
26	<u>Short-term Trends</u>									
27	Recent Twelve Months Avg	2.01%	+	9.51%	=	11.70%	-	3.59%	=	8.11%
28	Recent Nine Months Avg	2.00%	+	9.51%	=	11.70%	-	3.53%	=	8.16%
29	Recent Six Months Avg	2.01%	+	9.46%	=	11.65%	-	3.41%	=	8.24%
30	Recent Three Months Avg	2.01%	+	9.44%	=	11.65%	-	3.32%	=	8.33%

Notes:

¹ Median Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data (monthly) - Value Line 1700 Stocks

² Expected Dividend Yield (D_1/P_0) equals current average dividend yield (D_0/P_0) times one plus growth rate(g).

³ Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.

⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

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Utility Source, LLC
Traditional Capital Asset Pricing Model (CAPM)

Exhibit
Rebuttal Schedule D-4.12
Witness: Bourassa

Line
No.

1		Rf ¹	+	beta ²	x	RP _M	+	=	k
2									
3	Historical Market Risk Premium CAPM	4.30%	+	0.72	x	6.70%	³	+	= 9.1%
4									
5	Current Market Risk Premium CAPM	4.30%	+	0.72	x	8.33%	⁴	+	= 10.3%
6									
7	Average								9.7%
8									
9	Median								9.7%
10									
11									

¹ Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.

² Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.

³ Historical Market Risk Premium from (Rp) MorningStar S&P 500 2014 Classic Yearbook Table 11-5 Long-Horizon ERP 1926-2013.

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.

20

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on Duff and Phelps Risk Premium Study Data

Exhibit
Rebuttal Schedule D-4.13
Witness: Bourassa

	Company	Symbol	Measures of size (Millions)					5 Yr Avg. EBITDA ³
			MV Equity ¹	Book Equity ¹	MVIC ¹	5 Yr Avg. Net Income	Total Assets ²	
1 American States		AWR	\$ 1,191	\$ 492	\$ 1,517	\$ 45	\$ 1,281	\$ 141
2 Aqua America		WTR	\$ 4,195	\$ 1,535	\$ 5,663	\$ 155	\$ 4,859	\$ 430
3 California Water		CWT	\$ 1,096	\$ 598	\$ 1,522	\$ 42	\$ 1,996	\$ 146
4 Connecticut Water		CTWS	\$ 359	\$ 197	\$ 534	\$ 13	\$ 579	\$ 28
5 Middlesex		MSEX	\$ 317	\$ 189	\$ 447	\$ 14	\$ 562	\$ 39
6 SJW Corp.		SJW	\$ 544	\$ 322	\$ 879	\$ 21	\$ 1,087	\$ 87
Utility Source, LLC		Proforma	NA	\$ 3.7	NA	\$ (0.2)	\$ 11.1	\$ 0.4

¹ From Zacks Investment Research data

² From Zacks Investment Research. From E-1 for subject utility.

³ Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data (\$ millions)

Company	Symbol	2013	2012	2011	2010	2009	Average
American States	AWR	\$ 62.7	\$ 54.0	\$ 45.9	\$ 33.2	\$ 29.5	\$ 45.1
Aqua America	WTR	\$ 205.0	\$ 197.0	\$ 143.1	\$ 124.0	\$ 104.4	\$ 154.7
California Water	CWT	\$ 47.3	\$ 49.0	\$ 37.7	\$ 37.7	\$ 40.6	\$ 42.4
Connecticut Water	CTWS	\$ 18.3	\$ 14.0	\$ 11.3	\$ 9.8	\$ 10.2	\$ 12.7
Middlesex	MSEX	\$ 16.6	\$ 14.0	\$ 13.4	\$ 14.3	\$ 10.0	\$ 13.7
SJW Corp.	SJW	\$ 23.5	\$ 22.0	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.2
Utility Source, LLC		(0.15)	(0.13)	(0.19)	(0.18)	(0.15)	(0.2)

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

⁴ Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data (\$ millions)

Company	Symbol	2013	2012	2011	2010	2009	Average
American States	AWR	\$ 161.0	\$ 154.0	\$ 133.3	\$ 134.4	\$ 122.6	\$ 141.1
Aqua America	WTR	\$ 424.3	\$ 439.0	\$ 397.8	\$ 473.2	\$ 415.2	\$ 429.9
California Water	CWT	\$ 155.0	\$ 151.0	\$ 143.3	\$ 155.7	\$ 125.5	\$ 146.1
Connecticut Water	CTWS	\$ 43.4	\$ 30.0	\$ 24.2	\$ 22.5	\$ 20.3	\$ 28.1
Middlesex	MSEX	\$ 42.1	\$ 39.0	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.7
SJW Corp.	SJW	\$ 91.4	\$ 90.0	\$ 87.1	\$ 75.4	\$ 93.5	\$ 87.5
Utility Source, LLC		\$ (0.0)	\$ 0.0	\$ (0.0)	(0.01)	0.02	0.42

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA data for subject utility from E-1 and/or ACC reports

Utility Source, LLC
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on Duff and Phelps Risk Premium Study Data

MRP_{ms} Estimates Using Duff & Phelps 2014 Valuation Handbook data (Unlevered)
 Assumes 100% Equity and 0% debt
 Data Smoothing with Regression Analysis
 Smoothed Premium (RP_{ms}) = Constant + X Coefficients * Log(Relevant Metric)

Exhibit
 Rebuttal Schedule D-4.14
 Witness: Bourassa

$RP_{unlevered} = RP_{levered} - W_d/W_e * (\beta_U - \beta_d) * RP_{market}$
 Where β_U = unlevered portfolio beta
 β_d = debt beta, assumed to be 0.1
 W_d = percentage of debt in capital structure
 W_e = percentage of equity in capital structure
 $RP_{levered}$ = levered realized risk premium

Constant
 X Coefficient(s)

MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
19.089%	16.046%	19.463%	13.763%	18.027%	15.308%
-3.233%	-2.591%	-3.243%	-2.623%	-2.851%	-2.736%

			MRP _{ms} (unlevered)						
	Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1	American States	AWR	9.14%	9.07%	9.15%	9.43%	9.17%	9.43%	9.23%
2	Aqua America	WTR	7.38%	7.79%	7.29%	8.02%	7.52%	8.10%	7.68%
3	California Water	CWT	9.26%	8.85%	9.14%	9.49%	8.62%	9.39%	9.13%
4	Connecticut Water	CTWS	10.83%	10.10%	10.62%	10.87%	10.15%	11.35%	10.65%
5	Middlesex	MSEX	11.00%	10.15%	10.87%	10.78%	10.19%	10.96%	10.66%
6	SJW Corp.	SJW	10.24%	9.55%	9.92%	10.28%	9.37%	10.00%	9.89%
Average (unlevered)			9.64%	9.25%	9.50%	9.81%	9.17%	9.87%	9.54%
Utility Source, LLC			NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Unlevered Portfolio Beta
(from 2014 Duff & Phelps Valuation Handbook - Table C)

			Unlevered Portfolio Beta (β_u)						
	Company	Symbol	Table C-1	Table C-2	Table C-4	Table C-3	Table C-5	Table C-6	Average
1	American States	AWR	0.94	0.96	0.95	0.95	0.97	0.95	0.95
2	Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86
3	California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96
4	Connecticut Water	CTWS	0.96	0.98	0.97	0.97	0.99	1.03	0.98
5	Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98
6	SJW Corp.	SJW	0.98	0.98	0.98	0.99	0.97	0.95	0.98
	Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95
	Utility Source, LLC		NA	0.98	NA	1.01	1.05	1.03	1.02

Utility Source, LLC
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on Duff and Phelps Risk Premium Study Data

MRP Estimates Using Duff & Phelps 2014 Valuation Handbook data (Relevered)

Relevered Realized Risk Premium

$$RP_{\text{relevered}} = RP_{\text{unlevered}} + W_d W_e (\beta_u - \beta_d) RP_{\text{market}}$$

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

$RP_{\text{unlevered}}$ = unlevered realized risk premium from Table 2

RP_{market} = general equity risk premium for the market since 1963.

Exhibit
 Rebuttal Schedule D-4.16
 Witness: Bourassa

			MRP _{MRP} (Relevered)						
Company	Symbol	W _d /W _e	MV	Book	5 Yr Avg.		Total	5 Yr Avg.	Average
			Equity	Equity	MVIC	Net Income	Assets	EBITDA	
1 American States	AWR	27.4%	10.27%	10.22%	10.29%	10.57%	10.33%	10.57%	10.37%
2 Aqua America	WTR	35.0%	8.70%	9.15%	8.60%	9.36%	8.77%	9.34%	8.98%
3 California Water	CWT	38.9%	10.94%	10.49%	10.76%	11.11%	10.22%	11.02%	10.76%
4 Connecticut Water	CTWS	48.7%	12.88%	12.20%	12.69%	12.94%	12.27%	13.56%	12.76%
5 Middlesex	MSEX	40.9%	12.72%	11.95%	12.63%	12.53%	11.97%	12.75%	12.42%
6 SJW Corp.	SJW	61.5%	12.90%	12.20%	12.57%	12.97%	11.99%	12.56%	12.53%
Average MRP (Relevered)		42.06%	11.40%	11.04%	11.26%	11.58%	10.93%	11.63%	11.31%
Utility Source, LLC		0.00%	NA	14.57%	NA	NMF	15.04%	16.34%	15.32%

Utility Source, LLC
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on Duff and Phelps Risk Premium Study Data

Equity Risk Premium Adjustment and Other metrics used in Build-up Method

Exhibit
 Rebuttal Schedule D-4.17
 Witness: Bourassa

[1] Estimate of Current Market Risk Premium (RP_{market})	5.00% <<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2013) ¹	4.90%
[3] Equity Risk Premium Adjustment (([1] - [2]))	0.10%
[4] Average MRP (relevered) for publicly traded water companies (from Rebuttal Schedule D-4.16)	11.31%
[5] MRP (relevered) for publicly traded water companies (RP_{mwa}) ([3] + [4])	11.41%
[6] Equity Risk Premium Adjustment ([3])	0.10%
[7] Average MRP (relevered) for subject utility company (from Table D-4.16)	15.32%
[8] MRP (relevered) for subject utility company (RP_{mwa}) ([6] + [7])	15.42%
[9] Industry Risk Premium (From Duff & Phelps for SIC 494 Water Supply Industry Exhibit 5-7)	-4.24%
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.96%) ¹	0.7184
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.05%
[12] Risk Free Rate (R_f) ²	2.98%

¹ From Duff & Phelps 2014 Valuation Handbook.

² Yield on 20 Yr U.S. Treasury September 30, 2014 (Federal Reserve)

Utility Source, LLC
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps* Risk Premium Study Data

Cost of Equity (COE) Estimate using Build-up Method

$$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$$

Where:

$E(R_i)$ = Expected (indicated) rate of return
 R_f = Risk-free rate of return. See Rebuttal Schedule D-4.17.
 RP_{m+s} = Market risk premium including size premium. See Rebuttal Schedule D-4.16.
 RP_i = Industry risk premium (adjusted). See Rebuttal Schedule D-4.17.
 RP_u = Company-specific risk premium

	Sample
	Publicly Traded
	Water
	<u>Utilities</u> <u>Utility Source, LLC</u>
R_f =	2.98% 2.98%
RP_{m+s} =	See Sched. D-4.16
RP_i =	-3.05% -3.05%
RP_u =	0.00% 0.00%

Exhibit
 Rebuttal Schedule D-4.18
 Witness: Bourassa

	<u>Company</u>	<u>Symbol</u>	<u>Indicated COE E(R_i)</u>						
			<u>MV</u> <u>Equity</u>	<u>Book</u> <u>Equity</u>	<u>MVIC</u>	<u>5 Yr Avg.</u> <u>Net Income</u>	<u>Total</u> <u>Assets</u>	<u>5 Yr Avg.</u> <u>EBITDA</u>	<u>Average</u>
1	American States	AWR	10.30%	10.26%	10.32%	10.60%	10.37%	10.60%	10.41%
2	Aqua America	WTR	8.73%	9.18%	8.63%	9.39%	8.80%	9.37%	9.02%
3	California Water	CWT	10.97%	10.52%	10.80%	11.15%	10.25%	11.06%	10.79%
4	Connecticut Water	CTWS	12.91%	12.23%	12.73%	12.98%	12.31%	13.60%	12.79%
5	Middlesex	MSEX	12.78%	11.98%	12.66%	12.56%	12.00%	12.78%	12.46%
6	SJW Corp.	SJW	12.93%	12.24%	12.60%	13.00%	12.03%	12.59%	12.57%
Average COE estimate			11.44%	11.07%	11.29%	11.61%	10.96%	11.67%	11.34%
Median COE Estimate			11.87%	11.25%	11.70%	11.85%	11.19%	11.83%	11.63%
Utility Source, LLC			NA	14.60%	NA	NMF	15.08%	16.37%	15.35%

Utility Source, LLC
Docket No. WS-04235A-13-0331

THOMAS J. BOURASSA
REBUTTAL TESTIMONY

October 3, 2014

EXHIBIT TJB-COC-RB1

Utility Source, LLC
Size Premium¹

Exhibit
TJB-COC-RB1
Witness: Bourassa

Line
No.

		Beta(β)	Size Premium	Risk Premium for Small Water Utilities ⁷
1				
2				
3				
4				
5				
6	Mid-Cap Companies ²	1.19	1.51%	
7				
8	Low-Cap Companies ³	1.30	2.31%	
9				
10	Micro-Cap Companies ⁴	1.43	4.36%	
11				
12	Decile 10 ⁵	1.48	6.63%	3.77%
13				
14				
15				
16				
17				
18				
19				
20	Estimated Risk Premium for small water utilities ⁶			0.99%
21				
22				
23				

¹ Data from Table 7-10 of Morningstar, *Ibbotson SBI 2013 Valuation Yearbook*

² Mid-Cap companies includes companies with market capitalization between \$1,912 million and \$7,687 million.

³ Low-Cap companies includes companies with market capitalization between \$514 million and \$1,909 million.

⁴ Micro-Cap companies includes companies with market capitalization less than \$514 million.

⁵ Decile 10 includes companies with market capitalization between \$1.14 million and \$254 million.

⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

⁷ Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

	Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
34						
35	1. American States	\$ 1,191 Low-Cap	2.31%	4.32%	0.16666667	0.72%
36	2. Aqua America	\$ 4,195 Mid-Cap	1.51%	5.12%	0.16666667	0.85%
37	3. California Water	\$ 1,096 Low-Cap	2.31%	4.32%	0.16666667	0.72%
38	4. Connecticut Water	\$ 359 Micro-Cap	4.36%	2.27%	0.16666667	0.38%
39	5. Middlesex	\$ 317 Micro-Cap	4.36%	2.27%	0.16666667	0.38%
40	6. SJW Corp.	\$ 544 Low-Cap	2.31%	4.32%	0.16666667	0.72%
41		Average	2.86%	Wgtd Size Prem. for Small Utilities		3.77%

ATTACHMENT 3

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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9
10 **COMMISSIONERS**

11 BOB STUMP, CHAIRMAN
12 GARY PIERCE
13 BOB BURNS
14 SUSAN BITTER SMITH
15 BRENDA BURNS

16 IN THE MATTER OF THE APPLICATION
17 OF UTILITY SOURCE, LLC, AN
18 ARIZONA CORPORATION, FOR A
19 DETERMINATION OF THE FAIR VALUE
20 OF ITS UTILITY PLANTS AND
21 PROPERTY AND FOR INCREASES IN
22 ITS WATER AND WASTEWATER RATES
23 AND CHARGES FOR UTILITY SERVICE
24 BASED THEREON.

DOCKET NO: WS-04235A-13-0331

**REBUTTAL TESTIMONY
OF LONNIE McCLEVE**

25 **Table of Contents**

26 General Information and Positions	p. 2
27 Response to Certain Staff Positions	p. 2
28 Fire Protection Plant Issues	p. 5
Response to Nielsen Issues	p. 6

1 **I. GENERAL INFORMATION AND POSITIONS**

2 **Q. Please state your name and your role in this matter.**

3 A. Lonnie McCleve. I am an owner of Utility Source, LLC ("Company"). I oversee
4 the Company. Typically, the day to day operations are handled by the Company's office
5 manager and system manager, but they keep me informed regarding significant issues.
6
7 The Company's other owner, Gary Bulechek, will sometimes oversee certain projects and
8 he will keep me informed as to those undertakings as well. I have held this position since
9 the Company was granted a CC&N in 2005. I have also developed several properties
10 over time, including Flagstaff Meadows, which is served by the Company.
11

12 **Q. What is the purpose of your testimony?**

13 A. I am commenting on the non-financial issues raised by Staff and the interveners. I
14 will focus on those issues where the Company has a contrary view to those expressed by
15 Staff or an intervener.
16

17 **II. RESPONSE TO CERTAIN STAFF POSITIONS**

18 **Q. Staff's engineer recommended that the Company finish constructing the**
19 **block wall around Well 2 and install a functioning gate. Does the Company agree**
20 **with this recommendation?**
21

22 A. The Company understands that it has to have site control of the well and needs to
23 have a fence, wall, or some type of enclosure to keep people away from the well. The
24 Company understands this requirement and agrees to finish the work. However, based on
25 our experience, we know the county may have specific requirements as to what type of
26 structure is built and where it is located. All we ask is that the recommendation be
27 worded so we are required to build a structure that complies with the enclosure rule, but
28

1 leave some flexibility to enable the Company to build a cost-effective structure.

2 **Q. Staff's engineer recommended that the Company adopt five BMPs selected by**
3 **Staff. Does the Company agree with this recommendation?**

4 A. No. The Company understands that the Commission no longer routinely requires
5 BMPs. Our understanding is that BMPs are usually adopted when water loss is high.
6 Here, the Company's water loss is around 5%, which is very good for a small water
7 company. So there is no need for BMPs. Further, if BMPs are required, then the
8 Company should be able to select which ones are most appropriate rather than Staff
9 dictating those to apply.
10
11

12 **Q. Regarding Deep Well 4, Staff recommends that the Company be required to**
13 **get Commission approval to sell Deep Well 4. Does the Company agree with this**
14 **recommendation?**

15 A. The Company has no intention of selling Deep Well 4, so this is not an issue.

16 **Q. Staff also recommends that the Company cannot require a developer to pay**
17 **for construction of a new well. Does the Company agree with this recommendation?**

18 A. No. Neither the Company nor Staff knows what a developer may plan. A
19 developer may want to construct a planned community where the demand is beyond the
20 current capacity of the Company system. In such a case, it might be prudent to have the
21 developer pay for another well.
22

23 **Q. Staff's engineer recommends that the Company repair the wastewater**
24 **treatment plant mixed media filter. Does the Company agree with this**
25 **recommendation?**

26 A. The Company accepts this recommendation, provided the costs are reasonable,
27 which should be less than \$10,000. To be clear, the plant meets the effluent standards for
28 producing irrigation water without this equipment being operational.

1 **Q. Discuss Staff's testimony regarding the standpipe that the Company has**
2 **built.**

3 A. My partner, Gary Bulechek, was the point person on this project. The Company
4 was selling bulk water from a fire hydrant, primarily to contractors and commercial users.
5 Coconino County staff approached the Company and said it would no longer allow the
6 Company to operate in this manner and would need to build a loading station. Put
7 another way, the Company built the new load station to comply with the County rules and
8 staff comments.
9
10

11 During this time, the Company was making approximately \$3,500 a year from
12 bulk water sales through the hydrant. The Company had no intention of making this an
13 expensive building project. But by the time we hired an engineer, followed his advice,
14 and then had to make multiple improvements demanded by the County, we had spent
15 around \$50,000 and the project was still not complete. Gary and I decided it made
16 economic sense to finish the project so that the costs expended could be recovered over
17 time.
18
19

20 As far as revenues, the Company believes it will generate more revenue than the
21 \$3,500 a year gained from sales through the fire hydrant. How much more is anyone's
22 guess. Staff seems to assert that the Company will sell 200,000 gallons every month,
23 which is very improbable especially during the winter. The 200,000-gallon estimate is
24 the maximum that could be served, not a projection of what will be served. Put another
25 way, it is a peak demand estimate that might occur some year; not a monthly estimate
26 that will occur every year.
27
28

1 **Q. Staff recommends the Company file a new rate case with a 2015 test year**
2 **based upon its belief that the standpipe operation could generate \$52,000 a year. Do**
3 **you agree with Staff's recommendation?**

4 A. No. First, this rate case will still be ongoing in 2015 and we will not have had
5 time to recover our rate case expense by the time we have to file another case. The new
6 rates will not be in effect for a year by the time we have another test year. Adding the
7 cost of another rate case so soon would be a tremendous burden on the customers. If
8 Staff is concerned about the Company over-earning, then it might be prudent to state that
9 the Company needs to file another rate case if Company revenues exceed the revenue
10 requirement by 10%. But to require a new rate case when we do not know the impact of
11 the fill station seems to build additional cost without a factual basis. My understanding is
12 the Commission usually requires a small water company to file for a rate case once every
13 five years, and we are fine with that approach.

14
15
16
17 **III. FIRE PROTECTION PLANT ISSUES**

18 **Q. The interveners raised concerns regarding fire protection plant inclusion in**
19 **rate base and reliability. Please comment on those issues.**

20 A. The Company has 34 fire hydrants. My understanding is that fire hydrants are
21 properly included in rate base. The reliability issues have been resolved. This was
22 confirmed by the local fire chief, who noted that he understood that adequate repairs have
23 been made. See Mark Sachara email dated July 29, 2014 (enclosed in filing by Terry
24 Fallon). In 2011, an electrical issue arose and was repaired in a reasonable time.
25 Between 2012 and 2013, there were mechanical issues that required repeated repair. A
26 bolt repeatedly broke, even after upgrading the quality of the bolt twice. After the fourth
27
28

1 bolt, which was custom made with dense material, broke the Company had a machinist
2 mill a retention system and that has solved the issue to date. Please note that the dates
3 provided herein are more accurate than what was previously provided in the response to
4 Nielsen's data request 1.6.
5

6 **IV. RESPONSE TO NIELSEN ISSUES**

7
8 **Q. Intervenor Nielsen argues that Utility Source is not in compliance with**
9 **Commission Decision 67446. Do you agree?**

10 A. No. Decision 72261 acknowledged that Staff concluded the Company complied
11 with Decision 67446, ADWR, and ADEQ. The Commission adopted Staff's
12 recommendation and found that the Company was in compliance and the performance
13 bond held to ensure performance was released.
14

15 Nielson's primary concern is the ownership of land. Right after Decision 72261
16 was issued, the Company instructed its attorney and engineer to transfer real property
17 rights at issue to the Company. To secure compliance, the Company filed two deeds and
18 two easements transferring rights to the Company. The Company trusted its consultants
19 to perform the task properly. If there are any discrepancies that were not previously
20 resolved and that exist today, the Company will rectify them. The Company and its
21 owners fully intend to have the Company own the production wells that concern Nielson.
22

23 One issue that needs to be addressed is the registration of the wells in the ADWR
24 data base. The Company is aware that several of its wells are still registered under other
25 entities and the Company will rectify this issue as soon as practical.
26
27
28

1 **Q. Intervener Nielsen argues Deep Well 4 should not be in rate base for various**
2 **reasons. Please comment on his position.**

3 A. The Company has not requested Deep Well 4 be included in rate base. While Mr.
4 Bulechek is in charge of this project, my understanding is that new source testing was
5 performed on this well around 2005-06 and the water quality is good. This well is
6 currently offline, but it is our intention to begin using it in the near future. The Company
7 is going to file all finalization documents soon because the intent is to start using this well
8 as a production well for the system.
9
10

11 **Q. Intervener Nielson seems to criticize comments you allegedly made**
12 **concerning water rates and the development of Flagstaff Meadows Unit III and the**
13 **proposed Loves Travel Center. Please comment.**

14 A. I am familiar with the expenses necessary to run these utilities. On several
15 occasions, I have stated publicly that unless the community grows with new customers,
16 utility rates could double. As demonstrated by our rate applications, as well as the
17 analysis by Staff and RUCO, my projection has proven accurate. The Company would
18 like more customers to help spread the cost of operating the utilities.
19

20 **Q. Intervener Nielsen alleges either the Company or its ownership has withheld**
21 **information and documents relating to the period when the utilities were operated**
22 **by the property owners' association. Please comment.**

23 A. The allegation is false. We turned over the records to the property owners'
24 association years ago. The issues related to the property owners' association operating
25 the utilities and the rate base has already been addressed by the Commission.

26 **Q. Nielsen also alleges that the Company has a line extension agreement with**
27 **Empire Builders. Do you have such an agreement?**

28 A. No. Nielsen is raising concerns about events that occurred approximately ten

1 years ago. I do not recall that we executed a line extension agreement. Our attorney who
2 would have addressed this issue is retired and the Empire Builders' project went
3 bankrupt. We reviewed our files and did not find an extension agreement with Empire
4 Builders or any entity associated with the development it proposed. On September 12,
5 2014, the Company responded to Nielsen's second set of data requests by stating the
6 Company does not have such agreements.
7

8
9 **Q. Nielsen alleges the utilities are overbuilt. Do you agree?**

10 A. No. I would like to point out that Staff's engineer did not believe the systems are
11 overbuilt either.
12

13 **Q. Nielsen alleges no hydrologist was consulted when Deep Wells 1 and 2 were**
14 **constructed. Is that true?**

15 A. No. When siting Deep Well 3, however, the hydrologist employed different
16 methods, which worked better.
17

18 **Q. Comment on Nielsen's statements that the Company did not respond to his**
19 **data requests relating to peak daily flows in March of 2012.**

20 A. The Company staff read the meter. We do not know why the flow was higher that
21 month.
22

23 **Q. Does this conclude your rebuttal testimony?**

24 A. Yes.
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27
28